SOUTHERN ARC MINERALS INC.

FINANCIAL STATEMENTS

(Unaudited – Prepared by Management)
(Expressed in Canadian Dollars)

SEPTEMBER 30, 2007

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended September 30, 2007.

SOUTHERN ARC MINERALS INC.
BALANCE SHEETS
(Unaudited)
(Expressed in Canadian dollars)

	September 30, 2007	June 30, 2007
ASSETS		
Current		
Cash and cash equivalents	$ 1,640,003	$ 878,988
Prepaid expense and deposit	25,485	32,006
Receivables	6,960	9,933
Investment (Note 5)	-	1,408,258
	1,672,448	2,329,185
Equipment (Note 3)	20,547	21,628
Resource properties (Note 4)	9,211,877	8,443,787
Investment (Note 5)	1,200,222	-
	$ 12,105,094	$ 10,794,600
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 388,428	$ 375,830
Shareholders' equity		
Capital stock (Note 6)	14,744,252	12,277,578
Share subscriptions received	-	43,750
Contributed surplus (Note 6)	5,526,306	1,580,928
Deficit	(8,553,892)	(3,483,486)
	11,716,666	10,418,770
	$ 12,105,094	$ 10,794,600

Basis of presentation (Note 1)
Nature and continuance of operations (Note 2)

On behalf of the Board:

"John Proust" Director *"Doug Leishman"* Director

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

SOUTHERN ARC MINERALS INC.
STATEMENTS OF OPERATIONS AND DEFICIT
(Unaudited)
FOR THE THREE MONTHS ENDED SEPTEMBER 30
(Expressed in Canadian dollars)

	2007	2006
EXPENSES		
Amortization	$ 1,081	$ 859
Consulting fees	15,000	50,139
Investor relations	22,500	13,500
Management fees	37,500	37,500
Office and miscellaneous	24,148	11,043
Professional fees	18,755	19,042
Property investigation costs	1,780	13,665
Rent	6,200	7,200
Stock-based compensation (Note 6)	4,700,522	38,717
Transfer agent and filing fees	2,311	3,414
Travel	39,199	-
Loss before other items	(4,868,996)	(195,079)
OTHER ITEMS		
Interest income	10,394	31,742
Fair value adjustment to investment (Note 5)	(211,804)	-
	(201,410)	31,742
Loss for the period	(5,070,406)	(163,337)
Deficit, beginning of period	(3,483,486)	(2,465,700)
Deficit, end of period	$ (8,553,892)	$ (2,629,037)
Basic and diluted loss per share	$ (0.09)	$ (0.00)
Weighted average number of shares outstanding	57,577,187	46,422,884

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

SOUTHERN ARC MINERALS INC.
STATEMENTS OF CASH FLOWS
(Unaudited)
FOR THE THREE MONTHS ENDED SEPTEMBER 30
(Expressed in Canadian dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	$ (5,070,406)	$ (163,337)
Items not affecting cash:		
Stock-based compensation	4,700,522	38,717
Amortization	1,081	859
Fair value adjustment of investment	211,804	-
Changes in non-cash working capital items:		
Decrease (increase) in receivables	2,973	(4,908)
Decrease (increase) in prepaid expense and deposit	6,521	(12,993)
(Decrease)/increase in accounts payable and accrued liabilities	(5,429)	33,829
Net cash used in operating activities	(152,934)	(107,833)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to resource properties	(750,063)	(827,185)
Acquisition of equipment	-	(16,164)
Acquisition of investment	(1,412,026)	-
Proceeds from investment	1,408,258	-
Net cash used in investing activities	(753,831)	(843,349)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	1,666,880	-
Share issue costs	900	5,148
Net cash provided by financing activities	1,667,780	5,148
Change in cash during period	761,015	(946,034)
Cash and cash equivalents, beginning of period	878,988	2,723,873
Cash and cash equivalents, end of period	$ 1,640,003	$ 1,777,839
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -
Cash and cash equivalents consist of:		
Cash on hand	$ 1,240,003	$ 7,776
Term deposits	400,000	1,770,063
	$ 1,640,003	$ 1,777,839

Supplemental disclosure with respect to cash flows (Note 7)

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

1. BASIS OF PRESENTATION

The interim period unaudited financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles. All financial summaries included are presented on a comparative and consistent basis showing the figures for the corresponding period in the preceding year. The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of annual financial statements, except as noted below. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These interim period statements should be read together with the audited financial statements and the accompanying notes included in the Company's latest annual report. In the opinion of the Company, its unaudted interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

2. NATURE AND CONTINUANCE OF OPERATIONS

The Company was incorporated in British Columbia on August 19, 2004. The Company is a natural resource company engaged in the acquisition and exploration of resource properties in Indonesia. To date, the Company has not generated significant revenues from operations and is considered to be in the exploration stage.

The Company is in the process of exploring and developing its resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. The outcome of these matters can not be predicted at this time. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the company be unable to continue in business.

New Accounting policy

The Canadian Institute of Chartered Accountants issued the following standards effective for the fiscal years beginning on or after October 1, 2006: Accounting Standards Section 1530 "Comprehensive Income", Accounting Standards Section 3855 "Financial Instruments –Recognition and Measurement" Accounting Standard Section 3861 "Financial Instruments – Presentation and Disclosure" and Accounting Standards Section 3865 –"Hedges". These sections require certain financial instruments and hedge transactions to be recorded at fair value. The standards also introduce the concept of comprehensive income and accumulated other comprehensive income. The Company adopted these standards effective July 1, 2007 on a prospective basis without retroactive restatement of prior periods. Under the new standard, financial instruments designated as "held for trading" and "available for sale" will be carried at their fair value while financial instruments designated as "loans and receivables", "financial liabilities" and those classified as "held to maturity" will be carried at their amortized cost. All derivatives will be carried on the consolidated balance sheet at their fair value. Mark-to-market adjustments on these instruments will be included in either net income or comprehensive income. Transaction costs incurred to acquire financial instruments will be included in the underlying balance.

(Expressed in Canadian dollars)

3. EQUIPMENT

	September 30, 2007			June 30, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telephone equipment	$ 26,278	$ 5,731	$ 20,547	$ 26,278	$ 4,650	$ 21,628

4. RESOURCE PROPERTIES

September 30, 2007	Lombok Property Indonesia	Sumbawa Property Indonesia	Total
Acquisition costs			
Balance, beginning and end of period	$ 1,051,254	$ 450,537	$ 1,501,791
Deferred exploration costs			
Incurred during the period:			
Assaying, testing, surveying and analysis	27,043	2,574	29,617
Camp construction, supplies and other	188,936	72,426	261,362
Drilling	239,202	-	239,202
Geological and other consulting	157,122	71,929	229,051
Travel	7,067	1,791	8,858
Total deferred exploration costs	619,370	148,720	768,090
Balance, beginning of period	3,960,749	2,981,247	6,941,996
Balance, end of period	4,574,066	3,123,914	7,697,980
Total resource property costs	$ 5,631,373	$ 3,580,504	$ 9,211,877

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain resource property interests as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many resource 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 Mining Corporation ("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 Inc. ("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.

4. RESOURCE PROPERTIES (cont'd…)

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 the remaining 50% of the 1% NSR, held by Indotan, 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 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 Contract of Work ("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.

Lombok and Sumbawa are currently comprised of two separate applications to the Indonesian Government for a 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 and on April 22, 2006, an extension was granted until April 22, 2007. A third 12 month extension to the SIPP period was granted by the local regional authorities on June 20, 2007. The Lombok SIPP was granted on December 4, 2002. On July 15, 2005, an extension and expansion of the Lombok Property SIPP was granted until February 15, 2006. A 12 month extension on the Lombok SIPP has been filed. The granting of a SIPP is not a guarantee that a COW will be entered into.

The Company entered into an agreement with PT Newmont Nusa Tenggara ("NNT") regarding a property ("*Block 1*") which is contiguous with the western boundary of the Company's current Lombok Island SIPP license. The acquisition was completed through a relinquishment by NNT of *Block 1* area. The terms of the agreement include granting NNT a 2% net smelter return ("NSR") on any mineral production from the area covered by *Block 1* together with a right of first refusal should the Company wish to introduce a new partner into any development within the area originally covered by *Block 1*.

(Expressed in Canadian dollars)

5. LONG-TERM INVESTMENT

As at September 30, 2007, the Company had an investment of $1,200,222 consisting of Canadian Asset-Backed Commercial Paper ("ABCP"), net of $211,804 fair value adjustment. The ABCP investment matured on August 17, 2007, but was not repaid and remains outstanding. A group of participants in the ABCP market, including banks, liquidity providers and major investors (the "Consortium") have agreed to a standstill period with respect to ABCP to permit time for the issuers of the ABCP to be restructured. On October 15, 2007, the Consortium agreed to extend the period to December 14, 2007. The Company's investment in ABCP consists of Rocket A Trust note issued by Coventree and is continuing to have the highest possible credit rating by DBRS for commercial paper. The fair value of this note is uncertain at this time as limited information is available in regards to the assets underlying the note and there is no active market for trading of these notes. The amount of the write-down represents management's best estimate given the limited information available. The actual amount realized in the future from the note may be materially different from the current value of the note recorded by the Company.

6. CAPITAL STOCK AND CONTRIBUTED SURPLUS

	Number of Shares	Capital Stock	Contributed Surplus
Authorized			
Unlimited common shares without par value			
Issued			
Balance as at June 30, 2006	46,442,884	$ 8,813,046	$ 1,546,833
Issued for cash	7,000,000	2,100,000	-
Exercise of warrants	3,062,049	1,451,525	(56,841)
Exercise of options	50,000	51,511	(22,511)
Stock-based compensation	-	-	66,113
Share issuance costs	-	(97,170)	-
Agent warrants	-	(47,334)	47,334
Balance as at June 30, 2007	56,554,933	12,277,578	1,580,928
Exercise of warrants	1,568,126	909,774	(39,144)
Exercise of options	1,500,000	1,556,000	(716,000)
Stock-based compensation	-	-	4,700,522
Share issuance costs recovery	-	900	-
Balance as at September 30, 2007	59,623,059	$ 14,744,252	$ 5,526,306

The Company had 4,177,781 shares in escrow at September 30, 2007.

During the period ended September 30, 2007, the Company:

a) issued 1,568,126 common shares for proceeds of $870,630 pursuant to the exercise of warrants, $43,750 of the proceeds were received during the period ended June 30, 2007.

b) issued 1,500,000 common shares for proceeds of $840,000 pursuant to the exercise of options.

(Expressed in Canadian dollars)

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

Stock options

The Company grants stock options in accordance with the policies of the TSX Venture Exchange ("TSXV"). 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 terms of the option, including the vesting terms and the option price are fixed by the directors at the time of grant subject to the price not being less than the market price of the Company's stock on the date of grant. The stock options granted are exercisable for a period of five years. A summary of the Company's outstanding stock options granted is presented below.

	Number of Options	Weighted Average Exercise Price
Outstanding, June 30, 2006	4,225,000	$ 0.47
Cancelled	(250,000)	0.60
Exercised	(50,000)	0.70
Outstanding, June 30, 2007	3,925,000	0.46
Granted	3,215,000	1.56
Exercised	(1,500,000)	0.56
Outstanding, September 30, 2007	5,640,000	1.06
Number of options currently exercisable	5,640,000	$ 1.06

During the period ended September 30, 2007, the Company reported stock-based compensation of $4,700,522, using the Black-Scholes option-pricing model, as a result of 3,215,000 options granted. These amounts were recorded as contributed surplus on the balance sheet.

Option pricing models require the use of estimates and assumptions including the expected volatility. Changes in underlying assumptions can materially affect the fair value estimates. The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the period:

	Three Month Period Ended September 30, 2007	Three Month Period Ended September 30, 2006
Risk-free interest rate	4.29%	3.88%
Expected life of options/warrants	5 years	4.67 years
Annualized volatility	162%	75.64%
Dividend rate	0.00%	0.00%

(Expressed in Canadian dollars)

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

Warrants

The Company has granted warrants to purchase common shares. A summary of warrants granted is presented below:

	Number of Warrants		Weighted Average Exercise Price
Outstanding, June 30, 2006	5,691,442	$	0.62
Granted	3,759,010		0.45
Exercised	(3,062,049)		0.46
Outstanding, June 30, 2007	6,388,403		0.60
Exercised	(1,568,126)		0.56
Outstanding, September 30, 2007	4,820,277	$	0.61

Share purchase options and warrants

At September 30, 2007, the Company had share purchase options and warrants outstanding enabling holders to acquire common shares as follows:

	Number of Shares		Exercise Price	Expiry Date
Options	1,400,000	$	0.25	June 30, 2010
	775,000		0.56	January 13, 2011
	250,000		0.70	April 13, 2011
	3,215,000		1.56	September 26, 2012
Warrants	864,250		0.50	December 28, 2007
	71,406		0.66	December 28, 2007
	1,284,286		1.00	March 24, 2008
	39,360		0.70	March 24, 2008
	2,560,975		0.45	March 28, 2009

7. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

The Company has the following significant non-cash transactions:

During the period ended September 30, 2007, the Company:

a) included in accounts payable $327,739 of resource property costs.

b) allocated $39,144 to capital stock from contributed surplus for agent warrants exercised during the period.

c) allocated $716,000 to capital stock from contributed surplus for stock options exercised during the period.

(Expressed in Canadian dollars)

8. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

a) Paid $37,500 (September 30, 2006 - $37,500) for management services and $4,500 (September 30, 2006 - $4,500) for administration, recorded in office expense, to a private company controlled by the Chief Executive Officer of the Company.

b) Paid $53,229 (September 30, 2006 - $43,806) for geological consulting services included in resource properties to an officer of the Company and a company controlled by an officer of the Company.

c) Paid $15,000 (September 30, 2006 - $Nil) for engineering consulting services to an officer of the Company.

d) Paid or accrued $20,000 (September 30, 2006 - $15,000) for professional accounting fees to a firm in which an officer is a partner.

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.

9. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, deposit, receivables, accounts payable and accrued liabilities and long-term investment. 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. At September 30, 2007, the Company had US$370,082 (approximately CAD$327,739) in accounts payable.

10. COMMITMENT

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

2008	$ 30,485
2009	16,998

(Expressed in Canadian dollars)

11. SEGMENTED INFORMATION

The Company operates in one industry segment, being the exploration of resource properties. Geographic information is as follows:

	Three Month Period Ended September 30, 2007	Three Month Period Ended September 30, 2006
Loss for the period:		
Canada	$ (5,071,458)	$ (163,337)
	September 30, 2007	June 30, 2007
Resource properties - Indonesia	$ 9,211,877	$ 8,443,787
Equipment – Canada	20,547	21,628
	$ 9,232,424	$ 8,465,415