SOUTHERN ARC MINERALS INC.

FINANCIAL STATEMENTS

JUNE 30, 2005

CHARTERED ACCOUNTANTS

MacKay LLP

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Auditors' Report

To the Directors of
Southern Arc Minerals Inc.

We have audited the balance sheets of Southern Arc Minerals Inc. as at June 30, 2005 and December 31, 2004 and the statement of operations and deficit, and cash flows for the periods then ended. 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 audits.

We conducted our audits 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 June 30, 2005 and December 31, 2004 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

"MacKay LLP"

Vancouver, Canada
September 27, 2005

Chartered Accountants

SOUTHERN ARC MINERALS INC.
BALANCE SHEETS

	June 30, 2005	December 31, 2004
ASSETS		
Current		
Cash	$ 1,013,447	$ 136,746
Receivables	29,672	6,961
	1,043,119	143,707
Resource properties (Note 3)	2,683,876	429,386
Deferred financing costs	-	86,301
	$ 3,726,995	$ 659,394
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	$ 225,640	$ 85,920
Shareholders' equity		
Capital stock (Note 4)	3,703,212	675,001
Contributed surplus (Note 4)	379,461	-
Deficit	(581,318)	(101,527)
	3,501,355	573,474
	$ 3,726,995	$ 659,394

Nature and continuance of operations (Note 1)

Commitment (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

	Six Month Period Ended June 30, 2005	Period From Incorporation on August 19, 2004 to December 31, 2004
EXPENSES		
Consulting fees	$ 71,200	$ 46,200
Interest and financing fees (Note 4)	71,620	-
Office and miscellaneous	48,603	13,261
Professional fees	70,876	23,416
Property investigation costs	12,418	-
Rent	10,100	7,400
Stock-based compensation (Note 4)	187,205	-
Travel	7,769	11,250
Loss for the period	(479,791)	(101,527)
Deficit, beginning of period	(101,527)	-
Deficit, end of period	$ (581,318)	$ (101,527)
Basic and diluted loss per share	$ (0.02)	$ (0.01)
Weighted average number of shares outstanding	23,755,802	9,000,001

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

SOUTHERN ARC MINERALS INC.
STATEMENTS OF CASH FLOWS

	Six Month Period Ended June 30, 2005	Period From Incorporation on August 19, 2004 to December 31, 2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	$ (479,791)	$ (101,527)
Item not affecting cash:		
Stock-based compensation	187,205	-
Stock-based financing fees	67,456	-
Changes in non-cash working capital items:		
Increase in receivables	(22,711)	(6,961)
Increase in accounts payable and accrued liabilities	139,720	85,920
Net cash used in operating activities	(108,121)	(22,568)
CASH FLOWS FROM INVESTING ACTIVITY		
Acquisition of resource properties	(1,266,990)	(429,386)
Net cash used in investing activity	(1,266,990)	(429,386)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of capital stock	2,525,000	675,001
Share issue costs	(273,188)	-
Deferred financing costs	-	(86,301)
Net cash provided by financing activities	2,251,812	588,700
Change in cash during period	876,701	136,746
Cash, beginning of period	136,746	-
Cash, end of period	$ 1,013,447	$ 136,746
Cash paid for interest	$ 4,164	$ -
Cash paid for income taxes	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 5)

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 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") and its common shares commenced trading on the TSX Venture Exchange ("TSX-V") in the six month period ended June 30, 2005 (Note 4).

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 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.

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 June 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.

3. RESOURCE PROPERTIES

June 30, 2005	Lombok Property	Sumbawa Property	Total
Acquisition costs			
Balance, beginning of period	$ 22,798	$ 9,770	$ 32,568
Additions	1,003,054	429,881	1,432,935
Balance, end of period	1,025,852	439,651	1,465,503
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	58,216	88,879	147,095
Total deferred exploration costs	430,018	391,537	821,555
Balance, beginning of period	240,407	156,411	396,818
Balance, end of period	670,425	547,948	1,218,373
Total resource property costs	$ 1,696,277	$ 987,599	$ 2,683,876

December 31, 2004	Lombok Property	Sumbawa Property	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
Travel and related costs	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 $81,572 and issued 12,500,000 common shares valued at $987,500 to Sunda during the period ended June 30, 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 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 (Note 4).

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"). The Company can acquire a further 5% interest in the Lombok JV and the Sumbawa JV by providing funds to each of the joint ventures in the amount of US$700,000 and US$300,000, respectively.

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.

4. 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	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
As at June 30, 2005	34,600,001	$ 3,703,212	$ 379,461

During the period ended December 31, 2004, the Company issued 9,000,001 common shares at $0.075 per share for proceeds of $675,001.

During the six month period ended June 30, 2005, the Company:

a) issued 12,500,000 common shares for the acquisition of resource properties (Note 3).

b) issued 2,000,000 common shares at $0.075 per share and 3,000,000 common shares at $0.125 per share for total proceeds of $525,000 as seed capital financing.

c) completed an IPO of 8,000,000 common shares at $0.25 per share for gross proceeds of $2,000,000. The agent received a cash commission of $160,000, and warrants to acquire 1,600,000 common shares exercisable at $0.25 per share until June 30, 2006. The agent also received 100,000 common shares valued at $25,000 as a corporate finance fee.

   The Company incurred additional share issue costs totalling $199,489, $86,301 of which was incurred at December 31, 2004.

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

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

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 June 30, 2005, the Company granted incentive stock options to acquire 3,400,000 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 June 30, 2005. Of the total, 100,000 vest as to 50,000 on June 30, 2006 and 50,000 on June 30, 2007. The Company recognized stock-based compensation of $187,205 in the statement of operations as a result of issuing incentive stock options. The weighted average fair value of options granted was $0.055 per option.

As at June 30, 2005 the following incentive stock options are outstanding:

	Number of Shares	Exercise Price	Expiry Date
Stock options	3,400,000	$ 0.25	June 30, 2010

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2004	-	$ -
Options granted	3,400,000	0.25
Outstanding, June 30, 2005	3,400,000	$ 0.25
Number of options currently exercisable	3,300,000	$ 0.25

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

Warrants

Pursuant to a loan agreement dated April 15, 2005, the Company granted option warrants as consideration for financing fees, to acquire 1,280,000 common shares exercisable at $0.125, expiring April 15, 2007, valued at $67,456 using the Black-Scholes option pricing model. During the period ended June 30, 2005, loan proceeds of $400,000 were received and repaid with interest, at 5% per annum, of $4,164.

On June 2, 2005, the Company granted agent option warrants, to acquire 1,600,000 common shares exercisable at $0.25 expiring June 30, 2006 valued at $124,800 using the Black-Scholes option pricing model.

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

Number of Shares	Exercise Price	Expiry Date
1,600,000	$ 0.25	June 30, 2006
1,280,000	0.125	April 15, 2007

There were no warrants outstanding at December 31, 2004.

Stock-based compensation

The fair value of compensatory options and warrants granted is estimated on the grant date using the Black-Scholes option pricing model.

The following assumptions were used for the valuation of stock options and agent warrants during the period ended June 30, 2005:

	Agent Warrants	Stock Options
Risk-free interest rate	3.15%	3.44%
Expected life	1.4 years	5 years
Annualized volatility	75%	75%
Dividend rate	0.00%	0.00%

5. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the period ended June 30, 2005 included:

a) issuance of 12,500,000 common shares, valued at $987,500, for the acquisition of resource properties.

5. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

b) issuance of agents shares and warrants valued at a total of $149,800.

c) issuance of warrants, valued at $67,456, as a consideration for financing fees.

6. RELATED PARTY TRANSACTIONS

During the six month period ended June 30, 2005, the Company entered into transactions with related parties as follows:

a) Paid or accrued $48,000 (period from incorporation on August 19, 2004 to December 31, 2004 - $40,000) for consulting fees to a director of the Company.

b) Paid or accrued $43,390 (period from incorporation on August 19, 2004 to December 31, 2004 - $6,000) for professional fees to a firm in which an officer is a partner.

c) Paid or accrued $58,652 (period from incorporation on August 19, 2004 to December 31, 2004 - $58,626) 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.

7. INCOME TAXES

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

	Six Month Period Ended June 30, 2005	Period From Incorporation on August 19, 2004 to December 31, 2004
Loss before income tax recovery	$ (479,791)	$ (101,527)
Expected income tax recovery	$ 163,705	$ 36,550
Item not deductible for income tax purposes	(86,890)	-
Share issuance costs	22,715	-
Financing costs	3,637	-
Unrecognized benefit of non-capital losses	(103,167)	(36,550)

Total income taxes	$ -	$ -

7. INCOME TAXES (cont'd…)

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

		June 30, 2005		December 31, 2004
Future income tax assets:				
Non-capital loss carry forwards	$	137,808	$	36,550
Share issuance costs		108,473		-
Financing costs		17,366		-
		263,647		36,550
Valuation allowance		(263,647)		(36,550)
Net future income tax assets	$	-	$	-

The Company has available for deduction against future years' taxable income non-capital losses of approximately $403,555. 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.

8. 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 mineral 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.

9. COMMITMENT

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

2006	$	34,000
2007		11,500

10. SUBSEQUENT EVENT

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 $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.