

SOUTHERN ARC MINERALS INC.

**FINANCIAL STATEMENTS
(Unaudited)**

MARCH 31, 2006

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 March 31, 2006.

SOUTHERN ARC MINERALS INC.
BALANCE SHEETS
(Unaudited)

	March 31, 2006	June 30, 2005
ASSETS		
Current		
Cash	\$ 3,555,671	\$ 1,013,447
Prepaid expense and deposit	18,073	-
Receivables	<u>12,226</u>	<u>29,672</u>
	3,585,970	1,043,119
Resource properties (Note 3)	<u>4,508,688</u>	<u>2,683,876</u>
	<u>\$ 8,094,658</u>	<u>\$ 3,726,995</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 159,613</u>	<u>\$ 225,640</u>
Shareholders' equity		
Capital stock (Note 4)	8,551,434	3,703,212
Contributed surplus (Note 4)	1,446,771	379,461
Subscriptions received (Note 4)	14,000	-
Deficit	<u>(2,077,160)</u>	<u>(581,318)</u>
	<u>7,935,045</u>	<u>3,501,355</u>
	<u>\$ 8,094,658</u>	<u>\$ 3,726,995</u>

Nature and continuance of operations (Note 2)

Commitment (Note 7)

Subsequent events (Note 8)

On behalf of the Board:

Director _____ 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 March 31, 2006	Three Month Period Ended March 31, 2005	Nine Month Period Ended March 31, 2006	Period From Incorporation on August 19, 2004 to March 31, 2005
EXPENSES				
Consulting fees	\$ 57,867	\$ 37,400	\$ 160,285	\$ 83,600
Investor relations costs	13,600	-	20,894	-
Office and miscellaneous	31,366	5,157	63,782	16,568
Professional fees	44,764	39,772	116,582	63,188
Property investigation costs	5,800	10,742	5,800	10,742
Rent	8,350	5,000	22,735	12,400
Stock-based compensation (Note 4)	1,021,113	76,585	1,041,653	76,585
Transfer agent and filing fees	10,232	3,525	26,402	5,375
Travel	22,754	6,298	42,789	17,548
Loss before other item	(1,215,846)	(184,479)	(1,500,922)	(286,006)
OTHER ITEM				
Interest income	5,080	-	5,080	-
Loss for the period	(1,210,766)	(184,479)	(1,495,842)	(286,006)
Deficit, beginning of period	(866,394)	(101,527)	(581,318)	-
Deficit, end of period	\$ (2,077,160)	\$ (286,006)	\$ (2,077,160)	\$ (286,006)
Basic and diluted loss per share	\$ (0.03)	\$ (0.01)	\$ (0.04)	\$ (0.02)
Weighted average number of shares outstanding	41,127,050	18,461,112	38,833,466	18,461,112

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

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

	Three Month Period Ended March 31, 2006	Three Month Period Ended March 31, 2005	Nine Month Period Ended March 31, 2006	Period From Incorporation on August 19, 2004 to March 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss for the period	\$ (1,210,766)	\$ (184,479)	\$ (1,495,842)	\$ (286,006)
Item not affecting cash:				
Stock-based compensation	1,021,113	76,585	1,041,653	76,585
Changes in non-cash working capital items:				
(Increase) decrease in receivables	17,269	(10,594)	17,446	(17,555)
Increase in prepaid expense and deposit	(10,523)	(3,026)	(18,073)	(3,026)
Increase (decrease) in accounts payable and accrued liabilities	<u>(141,461)</u>	<u>92,116</u>	<u>(199,429)</u>	<u>178,036</u>
Net cash used in operating activities	<u>(324,368)</u>	<u>(29,398)</u>	<u>(654,245)</u>	<u>(51,966)</u>
CASH FLOWS FROM INVESTING ACTIVITY				
Additions to resource properties	<u>(758,234)</u>	<u>(1,526,548)</u>	<u>(1,691,410)</u>	<u>(1,955,934)</u>
Net cash used in investing activity	<u>(758,234)</u>	<u>(1,526,548)</u>	<u>(1,691,410)</u>	<u>(1,955,934)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of shares	4,300,024	1,512,499	5,125,759	2,187,500
Share issue costs	(242,419)	-	(251,880)	-
Deferred financing costs	-	(39,334)	-	(125,635)
Subscription received in advance	<u>14,000</u>	<u>-</u>	<u>14,000</u>	<u>-</u>
Net cash provided by financing activities	<u>4,071,605</u>	<u>1,473,165</u>	<u>4,887,879</u>	<u>2,061,865</u>
Change in cash during period	2,989,003	(82,781)	2,542,224	53,965
Cash, beginning of period	<u>566,668</u>	<u>136,746</u>	<u>1,013,447</u>	<u>-</u>
Cash, end of period	<u>\$ 3,555,671</u>	<u>\$ 53,965</u>	<u>\$ 3,555,671</u>	<u>\$ 53,965</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>	<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)
MARCH 31, 2006

1. BASIS OF PRESENTATION

The interim period 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. Certain information and footnote disclosure normally included in financial statements prepared in accordance with generally accepted accounting principles has 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 unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

2. 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.

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
MARCH 31, 2006

3. RESOURCE PROPERTIES

March 31, 2006	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>25,402</u>	<u>10,886</u>	<u>17,941</u>	<u>23,797</u>	<u>78,026</u>
Balance, end of period	<u>1,051,254</u>	<u>450,537</u>	<u>17,941</u>	<u>23,797</u>	<u>1,543,529</u>
Deferred exploration costs					
Incurred during the period:					
Assaying, testing, surveying and analysis	68,941	137,527	-	-	206,468
Camp construction, supplies and accommodation	229,929	324,001	-	-	553,930
Geological and other consulting	275,949	345,867	-	-	621,816
Drilling	-	346,825	-	-	346,825
Travel	<u>7,229</u>	<u>10,518</u>	<u>-</u>	<u>-</u>	<u>17,747</u>
Total deferred exploration costs	582,048	1,164,738	-	-	1,746,786
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>1,252,473</u>	<u>1,712,686</u>	<u>-</u>	<u>-</u>	<u>2,965,159</u>
Total resource property costs	\$ 2,303,727	\$ 2,163,223	\$ 17,941	\$ 23,797	\$ 4,508,688

June 30, 2005	Lombok Property	Sumbawa Property	Total
Acquisition costs			
Balance, December 31, 2004	\$ 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, December 31, 2004	<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	\$ 1,696,277	\$ 987,599	\$ 2,683,876

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 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 the terms of the Option Agreement, the Company 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 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.

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 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. On April 22, 2006, an extension was granted until April 22, 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 8,860 ha 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*.

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. Licenses were granted for Bolol on September 8, 2005, Longo on October 4, 2005, Tebedo and Dalong on August 1, 2005. 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)
MARCH 31, 2006

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
	<u>-</u>	<u>(124,800)</u>	<u>124,800</u>
Balance as at June 30, 2005	34,600,001	3,703,212	379,461
Issued for cash	8,242,883	4,430,000	-
Exercise of warrants	783,037	195,759	-
Exercise of options	2,000,000	500,000	-
Stock-based compensation	-	-	1,041,653
Share issuance costs	-	(251,880)	-
Agent warrants	-	(25,657)	25,657
	<u>-</u>	<u>(25,657)</u>	<u>25,657</u>
Balance as at March 31, 2006	45,625,921	\$ 8,551,434	\$ 1,446,771

During the nine month period ended March 31, 2006, the Company:

- a) issued 783,037 common shares at \$0.25 per share for total proceeds of \$195,759 pursuant to the exercise of agent option warrants previously granted.
- b) completed a private placement of 4,000,000 units at \$0.35 per unit. Each unit consists of one common share and a one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at \$0.50 for a period of two years.
- c) re-priced 228,500 units included in the private placement pursuant to TSX-V terms. These units, originally issued at \$0.35, were adjusted to 142,812 units at \$0.56. Each re-priced unit consists of one common share and one-half of one common share purchase warrant, where one whole warrant entitles the holder to acquire one additional common share at \$0.66 for a period of two years. The total proceeds from the private placement were unchanged by the adjustment. Share issue costs of \$18,323 were paid in connection with the private placement.

SOUTHERN ARC MINERALS INC.
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4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

- d) completed a private placement of 4,328,571 units at \$0.70 per unit. Each unit consists of one common share and a one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share at \$1.00 for a period of two years. Share issuance costs of \$233,557 were paid in connection with the private placement.
- e) issued 2,000,000 common shares at \$0.25 pursuant to the exercise of options previously granted, of which 1,750,000 were issued to related parties.

The Company had 9,191,125 shares in escrow at March 31, 2006.

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.

The Company has granted directors, officers and consultants stock options to purchase common shares. A summary of the stock options granted is presented below.

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2004	-	\$ -
Granted	<u>3,400,000</u>	0.25
Outstanding, June 30, 2005	3,400,000	0.25
Granted	2,350,000	0.55
Exercised	<u>(2,000,000)</u>	0.25
Outstanding, March 31, 2006	<u>3,750,000</u>	\$ 0.44
Number of options currently exercisable	<u>3,525,000</u>	\$ 0.45

During the nine month period ended March 31, 2006, the Company reported stock-based compensation of \$1,041,653 as a result of:

- a) 100,000 options granted June 29, 2005, vesting as to 50,000 on June 30, 2006 and 50,000 on June 30, 2007.
- b) 75,000 options granted on October 12, 2005, vesting as to 25,000 on December 12, 2005, 25,000 on February 12, 2006, 12,500 on July 12, 2006 and 12,500 on October 12, 2006.

SOUTHERN ARC MINERALS INC.
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4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Stock options (cont'd...)

- c) 2,275,000 options granted on January 13, 2006 with 250,000 subject to vesting provisions of one quarter vesting every three months.

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

Warrants

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

	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
Granted	4,454,286		0.76
Exercised	<u>(783,037)</u>		0.25
Outstanding, March 31, 2006	6,551,249	\$	0.57

At March 31, 2006, the Company had received \$14,000 in subscriptions towards a pending exercise of warrants.

Share purchase options and warrants

At March 31, 2006, 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
	75,000	0.35	October 12, 2010
	2,275,000	0.56	January 13, 2011
Warrants	816,963	0.25	June 30, 2006
	1,280,000	0.125	April 15, 2007
	2,000,000	0.50	December 28, 2007
	2,164,286	1.00	March 24, 2008
	<u>290,000</u>	<u>0.70</u>	<u>March 24, 2008</u>

SOUTHERN ARC MINERALS INC.
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4. CAPITAL STOCK AND CONTRIBUTED SURPLUS (cont'd...)

Share purchase options and warrants (cont'd...)

The weighted average assumptions were used for the Black Scholes valuation of stock options and agent's warrants granted during the period.

	Stock Options
Expected dividend yield	0.0%
Expected volatility	75.64%
Risk-free interest rate	3.88%
Expected term in years	4.67 years

5. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

- a) Paid or accrued \$72,000 (March 31, 2005 - \$64,000) for consulting fees to a company controlled by a director of the Company.
- b) Paid or accrued \$48,100 (March 31, 2005 - \$21,500) for professional fees to a firm in which an officer is a partner.
- c) Paid or accrued \$113,743 (March 31, 2005 - \$26,685) for geological consulting fees included in resource properties to an officer of the Company and a company controlled by an officer of the Company.
- d) Accounts payable includes \$5,500 (March 31, 2005 - \$17,000) for professional fees owing 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.

6. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, prepaid expense and deposit, receivables, due from related party, 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.

SOUTHERN ARC MINERALS INC.
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6. FINANCIAL INSTRUMENTS (cont'd...)

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.

7. COMMITMENT

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

2006	\$	10,440
2007		20,170

8. SUBSEQUENT EVENTS

Subsequent to March 31, 2006, the Company:

- a) granted stock options to directors and consultants of the Company to acquire 475,000 common shares, exercisable at \$0.70 per share for a period of five years.
- b) issued 288,450 common shares at \$0.25 per share for total proceeds of \$72,113, pursuant to the exercise of warrants previously granted.