

SOUTHERN ARC MINERALS INC.

FINANCIAL STATEMENTS

SEPTEMBER 30, 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 September 30, 2006.

SOUTHERN ARC MINERALS INC.
BALANCE SHEETS
(Unaudited)

	September 30, 2006	June 30, 2006
ASSETS		
Current		
Cash and cash equivalents	\$ 1,777,839	\$ 2,723,873
Prepaid expense and deposit	32,110	19,117
Receivables	15,414	10,506
Due from related party (Note 7)	<u>10,880</u>	<u>10,880</u>
	1,836,243	2,764,376
Equipment (Note 3)	24,408	9,103
Resource properties (Note 4)	<u>6,054,429</u>	<u>5,382,679</u>
	<u>\$ 7,915,080</u>	<u>\$ 8,156,158</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current		
Accounts payable and accrued liabilities	<u>\$ 140,373</u>	<u>\$ 261,979</u>
Shareholders' equity		
Capital stock (Note 5)	8,818,194	8,813,046
Contributed surplus (Note 5)	1,585,550	1,546,833
Deficit	<u>(2,629,037)</u>	<u>(2,465,700)</u>
	<u>7,774,707</u>	<u>7,894,179</u>
	<u>\$ 7,915,080</u>	<u>\$ 8,156,158</u>

Basis of presentation (Note 1)

Nature and continuance of operations (Note 2)

Commitments (Notes 4, 5 and 9)

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)
FOR THE THREE MONTHS ENDED SEPTEMBER 30

	2006	2005
EXPENSES		
Amortization	\$ 859	\$ -
Consulting fees	87,639	46,518
Investor relations	13,500	-
Office and miscellaneous	11,043	30,724
Professional fees	19,042	34,750
Property investigation costs	13,665	-
Rent	7,200	7,050
Stock-based compensation (Note 5)	38,717	2,944
Transfer agent and filing fees	3,414	-
Travel	-	18,828
	<u>-</u>	<u>18,828</u>
Loss before other item	(195,079)	(140,814)
OTHER ITEM		
Interest income	<u>31,742</u>	<u>-</u>
Loss for the period	(163,337)	(140,814)
Deficit, beginning of period	<u>(2,465,700)</u>	<u>(581,318)</u>
Deficit, end of period	<u>\$ (2,629,037)</u>	<u>\$ (722,132)</u>
Basic and diluted loss per share	<u>\$ -</u>	<u>\$ -</u>
Weighted average number of shares outstanding	<u>46,442,884</u>	<u>34,607,358</u>

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

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

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the period	\$ (163,337)	\$ (140,814)
Items not affecting cash:		
Stock-based compensation	38,717	2,944
Amortization	859	-
Changes in non-cash working capital items:		
Increase in receivables	(4,908)	-
(Increase) decrease in prepaid expense and deposit	(12,993)	9,396
Increase in accounts payable and accrued liabilities	33,829	-
Advance to related party	-	(57,009)
Net cash used in operating activities	<u>(107,833)</u>	<u>(185,483)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to resource properties	(827,185)	(470,905)
Acquisition of equipment	<u>(16,164)</u>	<u>-</u>
Net cash used in investing activities	<u>(843,349)</u>	<u>(470,905)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of shares	-	41,625
Share issue costs	<u>5,148</u>	<u>(1,057)</u>
Net cash provided by financing activities	<u>5,148</u>	<u>40,568</u>
Change in cash during period	(946,034)	(615,820)
Cash and cash equivalents, beginning of period	<u>2,723,873</u>	<u>1,013,447</u>
Cash and cash equivalents, end of period	<u>\$ 1,777,839</u>	<u>\$ 397,627</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Cash paid for income taxes	<u>\$ -</u>	<u>\$ -</u>
Cash and cash equivalents consist of:		
Cash on hand	\$ 7,776	\$ 397,627
Term deposits	<u>1,770,063</u>	<u>-</u>
	<u>\$ 1,777,839</u>	<u>\$ 397,627</u>

Supplemental disclosure with respect to cash flows (Note 6)

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

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 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, 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 unaudited interim financial statements contain all adjustments necessary in order to present a fair statement of the results of the interim periods presented.

	September 30, 2006	December 31, 2005
Working capital	\$ 1,695,870	\$ 2,502,397
Deficit	(2,629,037)	(2,465,700)

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 exploration stage.

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 is in the process of exploring and developing its mineral 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.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to continue to raise adequate financing and to commence profitable operations in the future.

3. EQUIPMENT

	September 30, 2006			June 30, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Telephone equipment	\$ 26,278	\$ 1,870	\$ 24,408	\$ 10,114	\$ 1,011	\$ 9,103

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2006

4. RESOURCE PROPERTIES

September 30, 2006	Lombok Property Indonesia	Sumbawa Property Indonesia	Flores Property Indonesia	Total
Acquisition costs				
Balance, beginning of period	\$ 1,051,254	\$ 450,537	\$ 17,941	\$ 1,519,732
Additions	-	-	-	-
Written-off during the period	-	-	-	-
Balance, end of period	<u>1,051,254</u>	<u>450,537</u>	<u>17,941</u>	<u>1,519,732</u>
Deferred exploration costs				
Incurred during the period:				
Assaying, testing, surveying and analysis	42,457	14,624	4,315	61,396
Camp construction, supplies and accommodation	153,586	52,390	17,624	223,600
Geological and other consulting	159,397	75,540	38,366	273,303
Drilling	78,913	29,856	-	108,769
Travel	<u>4,451</u>	<u>(84)</u>	<u>315</u>	<u>4,682</u>
Total deferred exploration costs	438,804	172,326	60,620	671,750
Balance, beginning of period	<u>1,537,871</u>	<u>2,300,209</u>	<u>24,867</u>	<u>3,862,947</u>
Balance, end of period	<u>1,976,675</u>	<u>2,472,535</u>	<u>85,487</u>	<u>4,534,697</u>
Total resource property costs	<u>\$ 3,027,929</u>	<u>\$ 2,923,072</u>	<u>\$ 103,428</u>	<u>\$ 6,054,429</u>

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.

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

Lombok and Sumbawa Properties, Indonesia (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 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.

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. 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*.

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2006

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

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 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 could acquire a 75% interest in an Indonesian mineral property (the "Property").

During the year ended June 30, 2006, the Company abandoned the agreement and has written-off \$23,797 of mineral property assets to operations.

5. 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, 2005	34,600,001	\$ 3,703,212	\$ 379,461
Issued for cash	8,242,883	4,430,000	-
Exercise of warrants	1,600,000	524,800	(124,800)
Exercise of options	2,000,000	557,800	(57,800)
Stock-based compensation	-	-	1,263,238
Share issuance costs	-	(316,032)	-
Agent warrants	-	(86,734)	86,734
	<u>46,442,884</u>	<u>8,813,046</u>	<u>1,546,833</u>
Balance as at June 30, 2006	46,442,884	8,813,046	1,546,833
Stock-based compensation	-	-	38,717
Share issuance costs refunded	-	5,148	-
	<u>46,442,884</u>	<u>8,818,194</u>	<u>1,585,550</u>
Balance as at September 30, 2006	46,442,884	\$ 8,818,194	\$ 1,585,550

The Company had 9,191,125 shares in escrow at September 30, 2006.

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2006

5. 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 and may be subject to vesting provisions.

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, June 30, 2005	3,400,000	\$	0.25
Granted (weighted average fair value, \$0.31)	75,000		0.35
Granted (weighted average fair value, \$0.48)	2,275,000		0.56
Granted (weighted average fair value, \$0.45)	475,000		0.70
Exercised	<u>(2,000,000)</u>		0.25
Outstanding, June 30, 2006 and September 30, 2006	4,225,000	\$	0.47
Number of options currently exercisable	3,893,750	\$	0.44

During the period ended September 30, 2006, the Company reported stock-based compensation of \$38,717 (September 30, 2005 - \$2,944), using the Black-Scholes option-pricing model, as a result of vested options that were granted previously. These amounts were recorded as contributed surplus on the balance sheet.

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, June 30, 2005	2,880,000	\$	0.19
Granted	4,411,442		0.76
Exercised	<u>(1,600,000)</u>		0.25
Outstanding, June 30, 2006 and September 30, 2006	5,691,442	\$	0.62

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2006

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

Warrants (cont'd...)

During the period from incorporation on August 19, 2004 to June 30, 2005, the Company granted agent 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.

Share purchase options and warrants

At September 30, 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
	475,000	0.70	April 13, 2011
Warrants	1,280,000	0.125	April 15, 2007
	1,885,750	0.50	December 28, 2007
	71,406	0.56	December 28, 2007
	2,164,286	1.00	March 24, 2008
	290,000	0.70	March 24, 2008

6. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Significant non-cash transactions during the period ended September 30, 2006 included mineral property costs of \$87,013 included in accounts payable (June 30, 2006 - \$242,448).

7. RELATED PARTY TRANSACTIONS

The Company entered into transactions with related parties as follows:

- Paid or accrued \$37,500 (September 30, 2005 - \$24,000) for consulting fees to a company controlled by a director of the Company.
- Paid or accrued \$4,500 (September 30, 2005 - \$Nil) for administration fees, in office expense, to a company controlled by a director of the Company.
- Paid or accrued \$43,806 (September 30, 2005 - \$37,482) for geological consulting fees included in resource properties to an officer of the Company and a company controlled by an officer of the Company.

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2006

7. RELATED PARTY TRANSACTIONS (cont'd...)

- d) Paid or accrued \$15,000 (September 30, 2005 - \$21,300) for professional fees to a firm in which an officer is a partner.
- e) Accounts payable includes \$22,500 (September 30, 2005 - \$Nil) 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.

The amounts due from related parties are as follows:

	2006	2005
Due from director and officer	\$ 10,880	\$ 10,880

The fair value of the amounts due to or from related parties is not determinable as they have no fixed terms of repayment, do not bear interest and are unsecured.

8. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, 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.

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.

9 COMMITMENT

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

2007	\$33,630
2008	15,890

SOUTHERN ARC MINERALS INC.
NOTES TO THE FINANCIAL STATEMENTS
(Unaudited)
SEPTEMBER 30, 2006

10. SEGMENTED INFORMATION

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

	2006	2005
Income (loss) for the period		
Canada	\$ (163,337)	\$ (140,814)
Resource properties:		
Indonesia	\$ 6,054,429	\$ 3,154,781