
GOLDEN ARROW RESOURCES CORPORATION

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED

DECEMBER 31, 2004, 2003 and 2002

(Expressed in Canadian Dollars)

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of the Company have been prepared by management in accordance with accounting principles generally accepted in Canada, and contain estimates based on management's judgement. Management maintains an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded, and proper records maintained.

The Audit Committee of the Board of Directors has met with the Company's independent auditors to review the scope and results of the annual audit, and to review the financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, are appointed by the shareholders to conduct an audit in accordance with generally accepted auditing standards in Canada and their report follows.

"Joseph Grosso"

Joseph Grosso
President

"Art Lang"

Art Lang
Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Golden Arrow Resources Corporation

We have audited the consolidated balance sheets of **Golden Arrow Resources Corporation** as at December 31, 2004 and December 31, 2003 and the consolidated statements of operations and deficit and cash flows for the years ended December 31, 2004, 2003 and 2002. 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years ended December 31, 2004, 2003 and 2002 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, B.C., Canada
April 21, 2005

GOLDEN ARROW RESOURCES CORPORATION

(An Exploration Stage Company)

CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2004 AND 2003

(Expressed in Canadian Dollars)

| | 2004 \$ | 2003 \$ |
|---|--------------------|--------------------|
| A S S E T S | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | 2,590,269 | 31,908 |
| Amounts receivable and prepaids | 44,546 | 1,091 |
| Marketable securities (Note 4) | <u>575,340</u> | <u>543,460</u> |
| | 3,210,155 | 576,459 |
| EQUIPMENT (Note 5) | 3,116 | 4,286 |
| MINERAL PROPERTIES AND DEFERRED COSTS (Note 6) | <u>7,084,507</u> | <u>6,744,907</u> |
| | <u>10,297,778</u> | <u>7,325,652</u> |
| L I A B I L I T I E S | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | <u>42,959</u> | <u>8,260</u> |
| FUTURE INCOME TAX LIABILITY (Note 9) | <u>1,114,599</u> | <u>1,079,112</u> |
| | <u>1,157,558</u> | <u>1,087,372</u> |
| S H A R E H O L D E R S ' E Q U I T Y | | |
| SHARE CAPITAL (Notes 7) | 1,854,161 | - |
| CONTRIBUTED SURPLUS (Notes 1 and 7) | 11,868,925 | 10,514,958 |
| DEFICIT (Note 1) | <u>(4,582,866)</u> | <u>(4,276,678)</u> |
| | <u>9,140,220</u> | <u>6,238,280</u> |
| | <u>10,297,778</u> | <u>7,325,652</u> |
| TRANSFER OF ASSETS (Note 1) | | |
| NATURE OF OPERATIONS (Note 2) | | |
| COMMITMENTS (Note 6) | | |
| CONTINGENCY (Note 11) | | |
| SUBSEQUENT EVENTS (Note 13) | | |

APPROVED BY THE BOARD OF DIRECTORS

“David Horton”, Director

“Art Lang”, Director

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

GOLDEN ARROW RESOURCES CORPORATION
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002
(Expressed in Canadian Dollars)

| | 2004 \$ | 2003 \$ | 2002 \$ |
|---|----------------------|----------------------|----------------------|
| EXPENSES | | | |
| Administrative and management services (Note 8) | 104,542 | 123,594 | 172,553 |
| Bank charges and interest | 2,549 | - | - |
| Corporate development and investor relations | 72,658 | 179,013 | 192,005 |
| Depreciation | 2,962 | 13,663 | 17,533 |
| General exploration | 83,731 | - | - |
| Office and sundry | 15,580 | 29,417 | 26,812 |
| Printing | 11,038 | 23,544 | 17,173 |
| Professional fees | 129,340 | 98,887 | 133,069 |
| Rent, parking and storage (Note 8) | 17,806 | 36,640 | 55,643 |
| Salaries and employee benefits (Note 8) | 70,678 | 101,209 | 150,943 |
| Stock-based compensation | - | - | 98,754 |
| Telephone and utilities | 7,280 | 19,253 | 26,462 |
| Transfer agent and regulatory fees | 16,412 | - | - |
| Travel and accommodation | 42,825 | 53,774 | 61,969 |
| Cost recoveries | (32,890) | (17,819) | (4,620) |
| | <u>544,511</u> | <u>661,175</u> | <u>948,296</u> |
| LOSS BEFORE OTHER ITEMS | <u>(544,511)</u> | <u>(661,175)</u> | <u>(948,296)</u> |
| OTHER EXPENSE (INCOME) | | | |
| Foreign exchange (gain) loss | (43,176) | 13,153 | 6,479 |
| Gain on options and disposition of mineral properties (Note 6) | (510,710) | (481,779) | - |
| Write-off of mineral properties and deferred costs | - | 776,626 | - |
| Write-down of marketable securities | 378,075 | - | - |
| Gain on disposition of marketable securities | (56,047) | - | - |
| Interest and other income | (6,465) | - | - |
| | <u>(238,323)</u> | <u>308,000</u> | <u>6,479</u> |
| LOSS FOR THE YEAR | (306,188) | (969,175) | (954,775) |
| DEFICIT - BEGINNING OF YEAR | <u>(4,276,678)</u> | <u>(3,307,503)</u> | <u>(2,352,728)</u> |
| DEFICIT - END OF YEAR | <u>(4,582,866)</u> | <u>(4,276,678)</u> | <u>(3,307,503)</u> |
| BASIC AND DILUTED LOSS PER COMMON SHARE | <u>\$(0.06)</u> | <u>\$(0.23)</u> | <u>\$(0.23)</u> |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | <u>5,108,205</u> | <u>4,144,837</u> | <u>4,144,837</u> |

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

GOLDEN ARROW RESOURCES CORPORATION
(An Exploration Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003, AND 2002
(Expressed in Canadian Dollars)

| | 2004 | 2003 | 2002 |
|--|-------------------------|----------------------|--------------------|
| | \$ | \$ | \$ |
| CASH PROVIDED FROM (USED FOR) | | | |
| OPERATING ACTIVITIES | | | |
| Net loss for the year | (306,188) | (969,175) | (954,775) |
| Items not affecting cash | | | |
| Depreciation | 2,962 | 13,663 | 17,533 |
| Gain on options and disposition of mineral properties | (510,710) | (481,779) | - |
| Stock -based compensation | - | - | 98,754 |
| Write-down of marketable securities | 378,075 | - | - |
| Gain on sale of marketable securities | (56,047) | - | - |
| Write-down of mineral property interests | - | 776,626 | - |
| | <u>(491,908)</u> | <u>(660,665)</u> | <u>(838,488)</u> |
| Changes in non-cash working capital balances | <u>(8,756)</u> | <u>7,169</u> | <u>-</u> |
| | <u>(500,664)</u> | <u>(653,496)</u> | <u>(838,488)</u> |
| INVESTING ACTIVITIES | | | |
| Expenditures on mineral properties and deferred costs | (304,113) | (781,533) | (1,261,465) |
| Equipment | (1,792) | - | - |
| Proceeds on sale of marketable securities | 170,625 | - | - |
| | <u>(135,280)</u> | <u>(781,533)</u> | <u>(1,261,465)</u> |
| FINANCING ACTIVITIES | | | |
| Issuance of common shares | 2,148,114 | - | - |
| Cash contribution from IMA | 750,000 | 31,908 | - |
| Allocation of IMA equity | 494,007 | 1,435,029 | 2,099,953 |
| Share issuance costs | (197,816) | - | - |
| | <u>3,194,305</u> | <u>1,466,937</u> | <u>2,099,953</u> |
| INCREASE IN CASH AND CASH EQUIVALENTS | 2,558,361 | 31,908 | - |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>31,908</u> | <u>-</u> | <u>-</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u><u>2,590,269</u></u> | <u><u>31,908</u></u> | <u><u>-</u></u> |
| CASH AND CASH EQUIVALENTS IS COMPRISED OF: | | | |
| CASH | 1,590,269 | 31,908 | - |
| TERM DEPOSITS | 1,000,000 | - | - |
| | <u><u>2,590,269</u></u> | <u><u>31,908</u></u> | <u><u>-</u></u> |

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

GOLDEN ARROW RESOURCES CORPORATION
(An Exploration Stage Company)
CONSOLIDATED SCHEDULE OF MINERAL PROPERTIES AND DEFERRED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2004
(Expressed in Canadian Dollars)

| | <u>Argentina</u> | | | | | <u>Peru</u> | <u>Total</u> |
|--------------------------------------|------------------|----------------------|--------------------|-------------------|--------------|----------------------|--------------|
| | <u>Chubut</u> | <u>Valle de Cura</u> | <u>NW San Juan</u> | <u>Gualcamayo</u> | <u>Other</u> | <u>Rio Tabaconas</u> | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance | | | | | | | |
| - beginning of year | 586,190 | 1,592,802 | 24,473 | 152,489 | 581,441 | 3,807,512 | 6,744,907 |
| Expenditures | | | | | | | |
| Contractors | - | - | - | - | - | 101,095 | 101,095 |
| Field workers | - | - | - | - | - | 2,339 | 2,339 |
| Option payments | - | 93,244 | 3,782 | - | - | 44,584 | 141,610 |
| Office | 7 | - | - | - | - | 16,160 | 16,167 |
| Other | - | - | - | - | 315 | 38,747 | 39,062 |
| IVA | - | - | - | - | 33 | 3,807 | 3,840 |
| | 7 | 93,244 | 3,782 | - | 348 | 206,732 | 304,113 |
| Future income tax liability (Note 9) | - | - | - | - | - | 35,487 | 35,487 |
| Balance - end of year | 586,197 | 1,686,046 | 28,255 | 152,489 | 581,789 | 4,049,731 | 7,084,507 |

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

GOLDEN ARROW RESOURCES CORPORATION

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Expressed in Canadian Dollars)

1. TRANSFER OF ASSETS

On July 7, 2004, IMA Exploration Inc. ("IMA") completed a corporate restructuring plan (the "Reorganization") which resulted in it transferring certain assets and liabilities to Golden Arrow Resources Corporation (the "Company"), a newly created company. The Reorganization was accomplished by way of a statutory plan of arrangement. Shareholders of the Company were issued one share of Golden Arrow Resources Corporation for every ten shares of IMA held.

On completion of the Reorganization IMA transferred to the Company:

- i) IMA's investment in its mineral properties, excluding the Navidad and Navidad Area properties, with related future income tax liabilities;
- ii) the assets and liabilities of IMPSA Resources (BVI) Inc., Inversiones Mineras Argentinas Holdings (BVI) Inc., both wholly-owned subsidiaries of the IMA, and IMPSA Resources Corporation, an 80.69% owned subsidiary of IMA;
- iii) certain marketable securities at their recorded values; and
- iv) cash and cash equivalents.

The aggregate value of the net assets transferred from IMA was as follows:

| | 2004 \$ | December 31, 2003 \$ |
|--|--------------------|----------------------------|
| Cash and cash equivalents | 1,020,189 | 31,908 |
| Marketable securities and other current assets and liabilities | 548,841 | 536,291 |
| Mineral properties and deferred cost and equipment | 6,874,960 | 6,749,193 |
| Future income tax liability | <u>(1,079,112)</u> | <u>(1,079,112)</u> |
| | <u>7,364,878</u> | <u>6,238,280</u> |

Shareholders' equity has been recorded as follows:

| | 2004 \$ | December 31, 2003 \$ |
|---------------------|--------------------|----------------------------|
| Contributed Surplus | 11,772,788 | 10,514,958 |
| Deficit | <u>(4,407,910)</u> | <u>(4,276,678)</u> |
| | <u>7,364,878</u> | <u>6,238,280</u> |

The Company's 2004 Balance Sheet includes the historic values that were transferred from IMA on July 7, 2004. The December 31, 2003 comparative balances are the values that would have been transferred as of that date. The Company's Statement of Loss and Deficit includes an allocation of IMA's General and Administrative Expenses incurred prior to the Reorganization, in the Company's 2004 Expenses. All of the Company's Expenses for 2003 and 2002 are a result of a "carve-out" of an allocation of IMA's Expenses for those periods. The allocation was calculated on the basis of the ratio of the specific assets transferred to assets retained. Certain "Other Income and Expense" items have been reported on the basis of the nature of the income or expense. Prior to the spin-off of assets from IMA to the Company, funding provided by IMA related to the Company's activities is reflected as contributed surplus. Management cautions readers of the

GOLDEN ARROW RESOURCES CORPORATION

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FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Expressed in Canadian Dollars)

1. TRANSFER OF ASSETS (continued)

financial statements, that the allocation of expenses does not necessarily reflect future General and Administrative expenses. The Expenses reported for the year ended December 31, 2004 include the Company's actual expenses (from July 7, 2004) as well as the allocated expenses carved out from IMA.

See also Note 7.

2. NATURE OF OPERATIONS

The Company is in the process of exploring its mineral properties in South America and evaluating other mineral properties. The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. The amounts shown as mineral properties and deferred costs represent expenditures incurred to date, less amounts amortized and/or written off, and do not necessarily represent present or future values. The underlying value of the mineral properties and deferred costs are entirely dependent on the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain the necessary financing to complete development, and future profitable production.

The Company considers that it has adequate resources to maintain its core operations for the next fiscal year but currently does not have sufficient working capital to fund all of its planned exploration and development work. The Company will continue to rely on successfully completing additional equity financing.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared using careful judgment.

Significant accounting policies include:

Use of Estimates

The preparation of financial statements in conformity with Canadian GAAP 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 period. Significant areas requiring the use of management estimates include assessment of carrying values of mineral properties and deferred costs for impairment. Actual results may differ from these estimates.

GOLDEN ARROW RESOURCES CORPORATION

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries. The principal subsidiaries are IMPSA Resources (BVI) Inc. (100%), Inversiones Mineras Argentinas Holdings (BVI) Inc. (100%), IMPSA Resources Corporation (80.69%), Inversiones Mineras Australes SA (100%) and Minera IMP - Peru S.A.C. (100%). All inter-company transactions and balances have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include cash and short-term investments, maturing within 90 days of initial investment.

Marketable Securities

Marketable securities are carried at the lower of cost or market.

Mineral Properties and Deferred Costs

Direct costs related to the acquisition and exploration of mineral properties held or controlled by the Company, are deferred on an individual property basis until the viability of a property is determined. Administration costs and general exploration costs are expensed as incurred. When a property is placed in commercial production, deferred costs will be depleted using the units-of-production method. Management of the Company periodically reviews the recoverability of the capitalized mineral properties. Management takes into consideration various information including, but not limited to, results of exploration activities conducted to date, estimated future metal prices, and reports and opinions of outside geologists, mine engineers and consultants. When it is determined that a project or property will be abandoned then the costs are written-off, or if its carrying value has been impaired, then the costs are written down to fair value.

The Company accounts for foreign value added taxes paid as part of mineral properties and deferred costs. The recovery of these taxes will commence on the beginning of foreign commercial operations. Should these amounts be recovered they would be treated as a reduction in carrying costs of mineral properties and deferred costs.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

From time to time, the Company acquires or disposes of properties pursuant to the terms of option agreements. Options are exercisable entirely at the discretion of the optionee and, accordingly, are recorded as mineral property costs or recoveries when the payments are made or received. After costs are recovered the balance of the payments are recorded as a gain on option or disposition of mineral property.

GOLDEN ARROW RESOURCES CORPORATION

(An Exploration Stage Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized when a reasonable estimate of fair value can be made. The asset retirement obligation is recorded initially at fair value as a liability with a corresponding increase to the carrying amount of the related long-lived asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying cash flows. The related asset is adjusted only as a result of changes in the amount or timing of the underlying cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset; discount accretion is included in determining the results of operations. As at December 31, 2004, the Company does not have any asset retirement obligations.

Long-Lived Assets Impairment

Long-lived assets are reviewed for impairment when changes in circumstances suggest their carrying value has become impaired. Management considers assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows to result from the use of the asset and its eventual disposition. If impairment is deemed to exist, the assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis.

Translation of Foreign Currencies

The Company's foreign operations are integrated and are translated using the temporal method. Under this method, the Company translates monetary assets and liabilities denominated in foreign currencies at period-end rates. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates in effect during the period except for depreciation which is translated at historical rates. The resulting gains or losses are reflected in the operating results in the period of translation.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk consist primarily of cash and cash equivalents and amounts receivable. The Company limits its exposure to credit loss by placing its cash and cash-equivalents with major financial institutions.

Fair Values of Financial Instruments

The fair value of the Company's financial instruments consisting of cash and cash equivalents, amounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of those instruments. As of December 31, 2004, the market value of marketable securities was \$976,410 (2003 - \$1,032,546).

GOLDEN ARROW RESOURCES CORPORATION

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Company uses the liability method of accounting for future income taxes. Under this method of tax allocation, future income tax liabilities and assets are recognized for the estimated tax consequences attributable to differences between the amounts reported in the consolidated financial statements and their respective tax bases, using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized. The effect of a change in income tax rates on future income tax liabilities and assets is recognized in income in the period that the change occurs. Potential future income tax assets are not recognized, as they are not considered likely to be realized.

Loss Per Share

Loss per share is calculated based on the weighted average number of common shares issued and outstanding during the year. The effect of potential issuances of shares under options and warrants would be anti-dilutive and therefore basic and diluted losses per share are the same. Information regarding securities that could potentially dilute basic earnings per share in the future is presented in Note 7.

4. MARKETABLE SECURITIES

| | 2004 | | 2003 | |
|---------------------------------------|-------------------------|---------------------|-------------------------|---------------------|
| | Recorded Value \$ | Fair Value \$ | Recorded Value \$ | Fair Value \$ |
| Ballad Gold & Silver Ltd. | | | | |
| - 417,500 common shares | 62,625 | 62,625 | 250,000 | 325,000 |
| Amera Resources Corporation ("Amera") | | | | |
| - 859,900 common shares | 372,505 | 584,732 | 270,000 | 546,000 |
| Cloudbreak Resources Ltd. | | | | |
| - 850,000 common shares | 116,750 | 127,500 | - | - |
| Other | 23,460 | 201,553 | 23,460 | 161,546 |
| | <u>575,340</u> | <u>976,410</u> | <u>543,460</u> | <u>1,032,546</u> |

The Company holds these marketable securities as a result of entering into option and sale agreements for certain of its non-core mineral property holdings.

GOLDEN ARROW RESOURCES CORPORATION

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Expressed in Canadian Dollars)

5. EQUIPMENT

| | 2004 \$ | 2003 \$ |
|-------------------------------|----------------|-----------------|
| Office equipment | 11,716 | 26,927 |
| Less accumulated depreciation | <u>(8,600)</u> | <u>(22,641)</u> |
| | <u>3,116</u> | <u>4,286</u> |

6. MINERAL PROPERTIES AND DEFERRED COSTS

| | December 31, 2004 | Deferred Exploration Costs | Total | December 31, 2003 |
|---------------|----------------------------|----------------------------------|------------------|----------------------|
| | Acquisition Costs \$ | Costs \$ | \$ | Total \$ |
| Argentina | | | | |
| Chubut | - | 586,197 | 586,197 | 586,190 |
| Valle de Cura | 447,526 | 1,238,520 | 1,686,046 | 1,592,802 |
| NW San Juan | 3,782 | 24,473 | 28,255 | 24,473 |
| Gualcamayo | - | 152,489 | 152,489 | 152,489 |
| Other | <u>11,639</u> | <u>570,150</u> | <u>581,789</u> | <u>581,441</u> |
| | 462,947 | 2,571,829 | 3,034,776 | 2,937,395 |
| Peru | | | | |
| Rio Tabaconas | <u>773,829</u> | <u>3,275,902</u> | <u>4,049,731</u> | <u>3,807,512</u> |
| | <u>1,236,776</u> | <u>5,847,731</u> | <u>7,084,507</u> | <u>6,744,907</u> |

(a) Argentinean Properties

The Company has either staked, fully paid or holds options to acquire 100% working interests in mineral properties, located in San Juan Province and Chubut Province in Argentina. As of December 31, 2004, the Company must make further payments with respect to option agreements on the properties, totalling US \$170,000 in 2005.

The Company has also agreed to pay net smelter return royalties ("NSR") of up to US \$7,000,000 once commercial production is achieved on the optioned properties. The US\$7,000,000 was calculated based on the following:

- 3 Properties - up to US \$1,000,000 in NSR each
- 5 Properties - up to US \$800,000 in NSR each

GOLDEN ARROW RESOURCES CORPORATION

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FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Expressed in Canadian Dollars)

6. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

(b) Rio Tabaconas, Peru

The Company holds an option to acquire a 100% interest in three concessions, in the Cajamarca Department of San Ignacio Province in northern Peru. In addition, the Company owns ten concessions, which surround and overlie the optioned concessions. Collectively these are known as the Rio Tabaconas Project.

Under the terms of the option agreement, the Company has paid US \$185,000 and was required to make further payments of US \$1,315,000 for a total of US \$1,500,000. On June 28, 2002, the Company suspended further exploration activities at the Rio Tabaconas project. This decision was made in response to the local community expressing its concerns with mineral exploration activities. The Company has deferred any further exploration until an agreement with the local community has been finalized. As a result the Company declared force majeure, as allowed under its option agreement.

Accordingly, the Company and the optionor have deferred payment of the remaining option payments until the force majeure is discontinued. On August 1, 2003, the Company commenced paying US \$1,500 per month to the optionor as compensation during this waiting period.

(c) The Company has agreements with Amera Resources Corporation ("Amera"), a publicly-traded company with common management and directors, whereby the Company:

(i) optioned its Mogote Property in the NW San Juan Region of Argentina. Amera has the option to earn a 51% interest in the 8,009 hectare Mogote Property by issuing a total of 1,650,000 common shares of Amera to the Company and by incurring US \$1.25 million of expenditures, including work programs and underlying option payments, all over a five year period ending July 1, 2007. Amera has reimbursed the Company for past payments made and expenditures which had been incurred by the Company on the Mogote Property. To date the Company has received 200,000 shares of Amera with a value of \$85,000.

On April 8, 2004, Amera entered into a further agreement whereby it can earn an additional 24% interest, for a total 75% interest, after earning the initial 51% interest, by issuing 300,000 shares of Amera (with a value of \$279,000) and conducting an additional US \$3 million of exploration expenditures over a three year period ending May 20, 2007.

(ii) sold a 100% undivided interest in three mineral properties, comprising 24,280 hectares (the "Chubut Properties"), located in Chubut Province, Argentina, for 500,000 common shares of Amera for a recorded amount of \$225,000. In addition, in the event that a decision is made to place the Chubut Properties into commercial production, Amera will pay the Company a bonus of US\$250,000 and a 3% net smelter returns royalty.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(Expressed in Canadian Dollars)

6. MINERAL PROPERTIES AND DEFERRED COSTS (continued)

- (d) The Company has signed and will continue to sign joint venture agreements for certain of its properties with other junior exploration companies. The Company normally receives shares in these companies as compensation along with their commitments for exploration expenditures. The issue of these marketable securities is subject to TSX Venture Exchange ("TSXV") approval. The intent is to sell these securities to maximize return to the Company.

7. SHARE CAPITAL

Authorized: unlimited common shares without par value

Issued:

| | Shares | Amount \$ |
|--------------------------------|------------------|------------------|
| Balance, July 7, 2004 (Note 1) | 4,144,837 | = |
| Issued during the period for: | | |
| Private Placement | 3,239,000 | 2,040,570 |
| Shares issued for finance fees | 20,000 | 12,600 |
| Exercise of warrants | 221,083 | 107,544 |
| Share issue costs | <u>-</u> | <u>(306,553)</u> |
| Balance, December 31, 2004 | <u>7,624,920</u> | <u>1,854,161</u> |

- (a) On July 7, 2004, the Company issued 4,144,837 common shares on completion of the Reorganization, on the basis of one share of the Company for each ten shares of IMA. Funding provided by IMA prior to the Reorganization of \$11,772,788 has been recorded as contributed surplus, as described in Note 1.
- (b) During fiscal 2004, the Company completed a brokered private placement of 3,239,000 units at \$0.63 per unit for gross proceeds of \$2,040,570. Each unit consisted of one common share and one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase a common share for \$0.80 per share on or before November 16, 2006. The Company also issued 20,000 compensation options to the agent at \$0.63 per unit having the same terms as the units offered under the financing. The Company issued agent's warrants entitling the holders to purchase 435,900 common shares at \$0.80 per share, expiring November 16, 2006. The compensation options and the agent's warrants granted were valued using the Black-Scholes Pricing Model. The options at \$0.28 per option for a total value of \$5,626 and the warrants at \$0.20 per warrant for a total value of \$90,510. \$96,136 has been recorded as share issue costs with a corresponding increase to contributed surplus. At December 31, 2004, no compensation options or agent's warrants had been exercised.

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7. SHARE CAPITAL (continued)

(c) Warrants

Pursuant to the terms of the Reorganization the Company is required to issue one common share on the exercise of every ten IMA warrants which were outstanding on the date of the Reorganization. A summary of the number of common shares reserved pursuant to this requirement as at December 31, 2004, and the changes for the period from July 7, 2004 to December 31, 2004, is as follows:

| | Number |
|----------------------------|------------------|
| Balance, July 7, 2004 | 390,588 |
| Granted | 3,694,900 |
| Exercised | (221,082) |
| Expired | <u>(2,110)</u> |
| Balance, December 31, 2004 | <u>3,842,296</u> |

Common shares reserved pursuant to warrants outstanding at December 31, 2004 are as follows:

| Number | Exercise Price \$ | Expiry Date |
|------------------|-----------------------------|--------------------|
| 84,230 | 1.11 | February 23, 2005 |
| 16,800 | 0.98 | February 23, 2005 |
| 66,366 | 0.50 | March 16, 2005 |
| 3,674,900 | 0.80 | November 16, 2005 |
| <u>3,842,296</u> | | |

8. RELATED PARTY TRANSACTIONS

The Company shares office space with IMA and has entered into a contract with IMA pursuant to which IMA provides administrative management services on a cost plus 10% basis (initially \$9,500 per month plus GST). During the period ended December 31, 2004, the Company paid IMA \$57,000 for rent, administrative and management services.

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9. INCOME TAXES

The recovery of income taxes shown in the consolidated statements of operations and deficit differs from the amounts obtained by applying statutory rates to the loss before provision for income taxes due to the following:

| | 2004 \$ | 2003 \$ | 2002 \$ |
|---|------------------|------------------|------------------|
| Statutory tax rate | <u>35.62%</u> | <u>37.62%</u> | <u>39.62%</u> |
| Loss for the year | <u>(306,188)</u> | <u>(969,175)</u> | <u>(954,775)</u> |
| Provision for income taxes based on statutory Canadian combined federal and provincial income tax rates | (109,064) | (364,604) | (378,282) |
| Losses for which an income tax benefit has not been recognized | <u>109,064</u> | <u>364,604</u> | <u>378,282</u> |
| | <u>-</u> | <u>-</u> | <u>-</u> |

Future income taxes reflect the net tax effects of differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax assets are as follows:

| | 2004 \$ | 2003 \$ |
|---|------------------|------------------|
| Future income tax assets | | |
| Financing costs | 59,960 | - |
| Operating loss carryforward | <u>774,940</u> | <u>800,335</u> |
| | 834,900 | 800,335 |
| Valuation allowance for future tax assets | <u>(834,900)</u> | <u>(800,335)</u> |
| | <u>-</u> | <u>-</u> |

The Company has Canadian non-capital loss carryforwards of \$265,000 that may be available for tax purposes. The losses expire over the future years to 2014.

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9. INCOME TAXES (continued)

Future Income Tax Liabilities

For certain acquisitions and other payments for mineral property interests, the Company records a future income tax liability and a corresponding adjustment to the related asset carrying amount. During the year ended December 31, 2004, the Company recorded a future income tax liability of \$35,487 (2003 - \$71,037) and a corresponding adjustment to mineral properties.

| | 2004 | 2003 |
|-------------------------------|-----------|-----------|
| | \$ | \$ |
| Future income tax liabilities | 1,114,599 | 1,079,112 |

10. SEGMENTED INFORMATION

The Company is involved in mineral exploration and development activities, which are conducted principally in Argentina and Peru. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating results.

The Company's total assets are segmented geographically as follows:

| | December 31, 2004 | | | |
|---------------------------------------|---------------------|------------------------------------|-------------------------------|------------|
| | Corporate Canada | Mineral Operations Argentina | Mineral Operations Peru | |
| | \$ | \$ | \$ | \$ |
| Current assets | 3,194,871 | 1,289 | 13,955 | 3,210,155 |
| Equipment | - | - | 3,116 | 3,116 |
| Mineral properties and deferred costs | - | 3,034,776 | 4,049,731 | 7,084,507 |
| | 3,194,871 | 3,036,065 | 4,066,802 | 10,297,778 |
| | December 31, 2003 | | | |
| | Corporate Canada | Mineral Operations Argentina | Mineral Operations Peru | Total |
| | \$ | \$ | \$ | \$ |
| Current assets | 543,460 | - | 32,999 | 576,459 |
| Equipment | - | - | 4,286 | 4,286 |
| Mineral properties and deferred costs | - | 2,937,395 | 3,807,512 | 6,744,907 |
| | 543,460 | 2,937,395 | 3,844,797 | 7,325,652 |

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11. CONTINGENCY

In March 2004, Aquiline Resources Inc. ("Aquiline") commenced an action against IMA seeking a constructive trust over IMA's Navidad properties and damages. As a condition of the Reorganization the Company became a party to this action. The Company received an indemnification from IMA that will compensate for any payment or cost the Company might have to pay in the event of an award against IMA and/or the Company. Accordingly, no amounts related to this action have been accrued in these financial statements at December 31, 2004.

12. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash investing and financing activities were conducted by the Company as follows:

| | 2004 | 2003 | 2002 |
|---|-----------|-----------|----------|
| | \$ | \$ | \$ |
| Investing activities | | | |
| Proceeds on disposition of mineral properties | (505,750) | (272,982) | - |
| Acquisition of marketable securities | 505,750 | (272,982) | - |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| | | | |
| | 2004 | 2003 | 2002 |
| | \$ | \$ | \$ |
| Financing activities | | | |
| Share issue costs | (108,737) | - | - |
| Contributed surplus | 96,137 | - | - |
| Shares issued for payment of finance fees | 12,600 | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>-</u> | <u>-</u> | <u>-</u> |

13. SUBSEQUENT EVENTS

- a) Subsequent to December 31, 2004, the Company issued 165,347 common shares on the exercise of warrants for \$160,868.
- b) Effective January 1, 2005, the Company engaged Grosso Group Management Ltd., ("Grosso Group") to provide services and facilities to the Company. As of this date, a formal agreement among the Company and the Grosso Group has not been finalized. Until such time as the formal agreement has been finalized, the Company and the Grosso Group intend to work under the terms of the proposed Administration Services Agreement by and among the Company and the Grosso Group. It is anticipated that the formal agreement will have an effective date of January 1, 2005. The Grosso Group is a private company which will be owned by the Company, IMA, Amera and Gold Point Exploration Ltd., each of which will own one share. The Grosso Group will provide its shareholder companies with geological, corporate development, administrative and management services.