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# **GOLDEN ARROW RESOURCES CORPORATION**

*(An Exploration Stage Company)*

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2010 AND 2009

*(Expressed in Canadian Dollars)*

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## Independent Auditor's Report

### To the Shareholders and Directors of Golden Arrow Resources Corporation

We have audited the accompanying consolidated financial statements of Golden Arrow Resources Corporation (the "Company"), which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of loss and deficit, comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

#### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Golden Arrow Resources Corporation as at December 31, 2010 and 2009 and its results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*(signed) PricewaterhouseCoopers LLP*

#### Chartered Accountants

April 5, 2011  
Vancouver, British Columbia

**GOLDEN ARROW RESOURCES CORPORATION***(An Exploration Stage Company)***CONSOLIDATED BALANCE SHEETS***(Expressed in Canadian Dollars)*

	December 31, 2010 \$	December 31, 2009 \$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	1,759,200	629,995
Short-term investments (Note 3)	1,762,833	1,127,234
Amounts receivable	56,284	199,293
Royalty income receivable (Note 5)	460,361	540,485
Prepaid expenses	43,270	293,368
Marketable securities (Note 4)	554,980	39,268
<b>TOTAL CURRENT ASSETS</b>	<b>4,636,928</b>	<b>2,829,643</b>
<b>DEPOSIT</b> (Note 12)	<b>50,000</b>	<b>85,000</b>
<b>OTHER RECEIVABLE</b>	<b>132,821</b>	<b>42,683</b>
<b>EQUIPMENT</b> (Note 6)	<b>57,636</b>	<b>-</b>
<b>MINERAL PROPERTY INTERESTS</b> (Note 7)	<b>1,060,488</b>	<b>2,391,651</b>
<b>TOTAL ASSETS</b>	<b>5,937,873</b>	<b>5,348,977</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	255,448	176,017
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b>		
Authorized – Unlimited common shares without par value (Note 9)		
Issued and outstanding 46,224,655 (December 31, 2009 – 34,901,655) common shares	9,602,338	12,155,608
<b>WARRANTS</b> (Note 9 and 11)	<b>454,550</b>	<b>1,043,182</b>
<b>CONTRIBUTED SURPLUS</b>	<b>14,150,325</b>	<b>13,451,553</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME</b>	<b>47,117</b>	<b>23,099</b>
<b>DEFICIT</b>	<b>(18,571,905)</b>	<b>(21,500,482)</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>5,682,425</b>	<b>5,172,960</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>5,937,873</b>	<b>5,348,977</b>
<b>COMMITMENTS AND CONTINGENCIES</b> (Note 7 and 14)		
<b>SUBSEQUENT EVENTS</b> (Note 18)		

APPROVED BY THE BOARD

"Joseph Grosso" , Director"David Horton" , 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, 2010 AND 2009**  
*(Expressed in Canadian Dollars)*

	2010 \$	2009 \$
<b>EXPENSES</b>		
Administration and management services	437,885	338,966
Amortization	11,122	-
Corporate development and investor relations	165,406	90,612
Exploration	1,530,864	1,855,223
Office and sundry	183,320	193,452
Professional fees	191,154	308,112
Rent, parking and storage	99,029	96,762
Salaries and employee benefits	159,013	406,070
Stock-based compensation (Note 10)	561,177	265,298
Transfer agent and regulatory fees	15,689	51,413
Travel and accommodation	54,617	72,135
	<u>(3,409,276)</u>	<u>(3,678,043)</u>
<b>LOSS BEFORE OTHER ITEMS</b>		
<b>OTHER INCOME (EXPENSE)</b>		
Foreign exchange	99,261	(233,036)
Write-off of mineral properties	-	(341,630)
Interest and other income	6,328	20,610
Royalty income (Note 5)	1,616,065	1,335,714
Expense recovery (Note 12)	-	255,000
Recovery on long-term investment	-	20,710
	<u>1,721,654</u>	<u>1,057,368</u>
<b>LOSS BEFORE INCOME TAX RECOVERY</b>	(1,687,622)	(2,620,675)
<b>INCOME TAX RECOVERY</b> (Note 13)	<u>26,349</u>	<u>119,269</u>
<b>LOSS FOR THE YEAR</b>	(1,661,273)	(2,501,406)
<b>DEFICIT ADJUSTMENT – DIVIDEND OF GOLDEN ALLIANCE RESOURCES CORP.</b>	4,589,850	-
<b>DEFICIT - BEGINNING OF YEAR</b>	<u>(21,500,482)</u>	<u>(18,999,076)</u>
<b>DEFICIT - END OF YEAR</b>	<u>(18,571,905)</u>	<u>(21,500,482)</u>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<u>(0.04)</u>	<u>(0.09)</u>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<u>37,553,187</u>	<u>29,251,263</u>

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**GOLDEN ARROW RESOURCES CORPORATION**  
*(An Exploration Stage Company)*  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
*(Expressed in Canadian Dollars)*

	2010	2009
<b>LOSS FOR THE YEAR</b>	\$ (1,661,273)	\$ (2,501,406)
<b>OTHER COMPREHENSIVE LOSS</b>		
Unrealized gain (loss) on available-for-sale marketable securities (Note 4)	<u>24,018</u>	<u>23,099</u>
<b>TOTAL COMPREHENSIVE LOSS</b>	<u>(1,637,255)</u>	<u>(2,478,307)</u>

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**GOLDEN ARROW RESOURCES CORPORATION**  
*(An Exploration Stage Company)*  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
*(Expressed in Canadian Dollars)*

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Loss for the year	(1,661,273)	(2,501,406)
Items not affecting cash:		
Accrued interest	1,699	5,644
Amortization included in exploration expense	6,068	-
Amortization	11,122	-
Stock-based compensation	561,177	265,298
Gain on sale of long-term investment	-	(20,710)
Income tax recovery	(26,349)	(119,269)
Write-off of mineral property interests	-	341,630
	(1,107,556)	(2,028,813)
Change in deposit	35,000	-
Change in other receivable	(90,138)	(42,683)
Change in non-cash working capital balances:		
Royalty income receivable	80,124	(540,485)
Amounts receivables and prepaid expenses	393,107	(349,245)
Accounts payable and accrued liabilities	79,431	776
	(610,032)	(2,960,450)
Net cash used in operating activities	(610,032)	(2,960,450)
<b>INVESTING ACTIVITIES</b>		
Expenditures on equipment	(74,826)	-
Expenditures on mineral property interests	(49,320)	(567,933)
Cash transferred to Golden Alliance Resources Corp.	(930,000)	-
Receipt of long-term investment	-	207,102
Purchase of marketable securities	(491,694)	-
Purchase of short-term investment	(2,512,298)	(1,125,000)
Redemption of short-term investments	1,875,000	650,000
	(2,183,138)	(835,831)
Net cash used in investing activities	(2,183,138)	(835,831)
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares and warrants	1,624,400	4,339,350
Exercise of warrants	2,339,975	-
Share issue costs	(42,000)	(285,215)
	3,922,375	4,054,135
Net cash produced by financing activities	3,922,375	4,054,135
<b>INCREASE IN CASH</b>	1,129,205	257,854
<b>CASH - BEGINNING OF YEAR</b>	629,995	372,141
<b>CASH - END OF YEAR</b>	1,759,200	629,995

**SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**  
(Note 16)

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

**GOLDEN ARROW RESOURCES CORPORATION**  
*(An Exploration Stage Company)*  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
*(Expressed in Canadian Dollars)*

	Number of Common Shares	Amount of Common Shares (Note 9) \$	Contributed Surplus (Note 10) \$	Warrants (Notes 9 and 11) \$	Accumulated Other Comprehensive Income \$	(Accumulated Deficit) \$
Balance as at December 31, 2008	15,468,655	9,144,655	12,510,396	795,128	-	(18,999,076)
Private placement	19,358,000	3,201,816	-	1,118,784	-	-
Share issue costs	-	(212,918)	-	-	-	-
Warrant issue costs	-	-	-	(72,297)	-	-
Warrants exercised	75,000	22,055	-	(3,305)	-	-
Expiration of warrants	-	-	795,128	(795,128)	-	-
Stock-based compensation	-	-	265,298	-	-	-
Capital tax on expired warrants	-	-	(119,269)	-	-	-
Net unrealized gain (loss) on available-for-sale marketable securities	-	-	-	-	23,099	-
Net loss	-	-	-	-	-	(2,501,406)
Balance as at December 31, 2009	34,901,655	12,155,608	13,451,553	1,043,182	23,099	(21,500,482)
Private placement	4,680,000	1,624,400	-	-	-	-
Share issue costs	-	(42,000)	-	-	-	-
Warrants exercised	6,643,000	2,660,757	-	(320,782)	-	-
Warrants expired	-	-	163,944	(163,944)	-	-
Stock-based compensation	-	-	561,177	-	-	-
Dividend of Peruvian and Colombian properties into Golden Alliance	-	(6,796,427)	-	(103,906)	-	4,589,850
Capital tax on expired warrants	-	-	(26,349)	-	-	-
Unrealized gain (loss) on available-for-sale marketable securities	-	-	-	-	24,018	-
Net loss	-	-	-	-	-	(1,661,273)
Balance as at December 31, 2010	46,224,655	9,602,338	14,150,325	454,550	47,117	(18,571,905)

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

**GOLDEN ARROW RESOURCES CORPORATION**  
*(An Exploration Stage Company)*  
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2010**  
*(Expressed in Canadian Dollars)*

**ACQUISITION COSTS**

	Argentina					Peru			Chile	Total
	Fronterra District \$	Mogote \$	Pescado \$	Purulla \$	Other \$	Rio Tabaconas \$	Cocha \$	Other \$	Mogote \$	\$
<b>BALANCE – BEGINNING OF YEAR</b>	644,755	167,924	30,021	117,981	50,487	1,310,867	30,843	38,773	-	2,391,651
<b>ACQUISITION COSTS DURING THE YEAR:</b>										
Staking costs and land payments	3,112	8,794	-	10,492	18,458	-	-	-	8,464	49,320
	3,112	8,794	-	10,492	18,458	-	-	-	8,464	49,320
Spin-out to Golden Alliance Resources Corp.	-	-	-	-	-	(1,310,867)	(30,843)	(38,773)	-	(1,380,483)
<b>BALANCE - END OF YEAR</b>	<b>647,867</b>	<b>176,718</b>	<b>30,021</b>	<b>128,473</b>	<b>68,945</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,464</b>	<b>1,060,488</b>

**EXPLORATION EXPENDITURES**

	Argentina					Peru	Colombia	Chile	Total
	Fronterra District \$	La Rioja \$	Pescado \$	Purulla \$	Other \$	Rio Tabaconas \$	La Morena and Other \$	Mogote \$	\$
<b>CUMULATIVE EXPLORATION EXPENDITURES</b>	1,733,011	-	841,007	6,302	432,009	3,517,528	-	-	6,529,857
Assays	10,878	1,110	-	-	-	-	-	385	12,373
Geophysics and Metallurgy	51,524	-	-	-	-	591	-	-	52,115
Property maintenance payments	-	-	-	-	-	4,595	-	-	4,595
Office	202,841	82,921	-	49,247	-	5,095	-	-	340,104
Salaries and contractors	288,334	98,523	-	68,486	24,797	19,634	-	1,815	501,589
Supplies and equipment	108,211	8,031	-	6,929	-	-	-	3,088	126,259
Transportation	212,074	84,550	-	120,652	-	352	-	-	417,628
Social	-	-	-	-	-	-	3,164	-	3,164
Statutory and taxes IVA	48,491	8,971	1,945	8,337	1,775	3,362	-	-	71,092
	922,353	284,106	2,101	253,651	26,572	33,629	3,164	5,288	1,530,864
Spin-out to Golden Alliance Resources Corp.	-	-	-	-	-	(3,551,157)	-	-	(3,551,157)
Properties no longer being explored	-	-	-	-	-	-	(3,164)	-	(3,164)
<b>CUMULATIVE EXPLORATION COSTS EXPENSED – END OF YEAR</b>	<b>2,655,364</b>	<b>284,106</b>	<b>843,108</b>	<b>259,953</b>	<b>458,581</b>	<b>-</b>	<b>-</b>	<b>5,288</b>	<b>4,506,400</b>

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**GOLDEN ARROW RESOURCES CORPORATION**  
*(An Exploration Stage Company)*  
**CONSOLIDATED SCHEDULE OF MINERAL PROPERTY INTERESTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**  
*(Expressed in Canadian Dollars)*

**ACQUISITION COSTS**

	Argentina						Peru			Colombia	Total	
	Fronterra District	Mogote	Poncha	Pescado	Jujuy	Purulla	Other	Rio Tabaconas	Cocha	Other		La Morena
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
<b>BALANCE – BEGINNING OF YEAR</b>	638,197	-	141,192	30,021	10,395	-	34,676	1,310,867	-	-	-	2,165,348
<b>ACQUISITION COSTS DURING THE YEAR:</b>												
Staking costs and land payments	6,558	167,924	90,417	-	-	117,981	15,811	-	30,843	38,773	99,626	567,933
Write-off of mineral property	-	-	(231,609)	-	(10,395)	-	-	-	-	-	(99,626)	(341,630)
<b>BALANCE - END OF YEAR</b>	644,755	167,924	-	30,021	-	117,981	50,487	1,310,867	30,843	38,773	-	2,391,651

**EXPLORATION EXPENDITURES**

	Argentina						Peru	Columbia	Total
	Fronterra District	Poncha	Pescado	Jujuy	Purulla	Other	Rio Tabaconas	La Morena and Other	
	\$	\$	\$	\$	\$	\$	\$	\$	
<b>CUMULATIVE EXPLORATION EXPENDITURES</b>	1,723,366	2,070,677	840,915	2,038,455	-	408,541	3,079,940	-	10,161,894
Assays	-	85,809	-	-	-	477	-	-	86,286
Communications	15	4,873	-	-	-	8	-	-	4,896
Drilling	-	488,225	-	-	-	-	-	-	488,225
Geophysics and Metallurgy	-	-	-	-	-	-	25,547	-	25,547
Imagery and base maps	-	-	-	-	6,302	-	210	-	6,512
Property maintenance payments	-	-	-	-	-	-	101,069	-	101,069
Office	7,819	161,054	85	543	-	10,288	31,226	-	211,015
Salaries and contractors	-	240,474	-	1,548	-	8,437	176,061	142,700	569,220
Supplies and equipment	33	84,149	-	-	-	33	11,694	-	95,909
Transportation	571	64,321	-	270	-	1,299	21,453	-	87,914
Social	-	-	-	-	-	-	33,229	-	33,229
Statutory and taxes	-	5,397	-	-	-	-	9,903	-	15,300
IVA	1,207	98,575	7	190	-	2,926	27,196	-	130,101
	9,645	1,232,877	92	2,551	6,302	23,468	437,588	142,700	1,855,223
Properties no longer being explored	-	(3,303,554)	-	(2,041,006)	-	-	-	(142,700)	(5,487,260)
<b>CUMULATIVE EXPLORATION COSTS EXPENSED – END OF YEAR</b>	1,733,011	-	841,007	-	6,302	432,009	3,517,528	-	6,529,857

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

**GOLDEN ARROW RESOURCES CORPORATION**  
*(An Exploration Stage Company)*  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
*(Expressed in Canadian Dollars)*

**1. NATURE OF OPERATIONS**

Golden Arrow Resources Corporation (the “Company”) was created on July 7, 2004, as a result of a corporate restructuring plan (the “Reorganization”) completed by Kobex Minerals Inc. (“Kobex”) (formerly IMA Exploration Inc.). Shareholders of Kobex were issued one share of the Company for every ten shares of Kobex held. The Company is a natural resource company engaged in the acquisition and exploration of resource properties in Argentina. 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. Consequently, the Company considers itself to be an exploration stage company.

The amounts shown as mineral property interests represent acquisition costs 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 property interests is 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 advance the properties beyond the exploration stage, and future profitability of the properties.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Presentation***

These consolidated financial statements and accompanying notes have been prepared in conformity with Canadian generally accepted accounting principles (“GAAP”).

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Inversiones Mineras Australes Holdings (BVI) Inc., IMPSA Resources Corporation, and Inversiones Mineras Australes S.A. All inter-company transactions and balances have been eliminated.

***Cash and cash equivalents***

Cash and cash equivalents include short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company places its deposits with financial institutions with high credit standings.

***Short-term investments***

Short-term investments include term deposits and money market investments maturing more than 90 days but less than 12 months from the date of initial investment. Short-term investments are designated as held-for-trading and recorded at fair value with changes in fair value, recorded in the statement of loss.

***Marketable Securities***

Marketable securities are recorded at fair value, with changes in fair value recorded in the statement of other comprehensive income. The fair value of marketable securities is obtained by reference to the current quoted bid price on the balance sheet date. When it is determined that a decrease in fair value is other than temporary a loss will be recorded in other income (expense).

**GOLDEN ARROW RESOURCES CORPORATION**  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
*(Expressed in Canadian Dollars)*

**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Mineral Property Interests***

Exploration expenditures are charged to earnings as they are incurred until the property reaches development stage. The development stage begins once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable. All direct costs related to the acquisition of resource property interests are capitalized. All direct costs related to the acquisition of resource property interests are capitalized. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

Mineral property acquisition costs include cash costs and the fair market value of common shares, based on the trading price of the shares issued for mineral property interests, pursuant to the terms of the related property agreements. Payments relating to a property acquired under an option or joint venture agreement are made at the sole discretion of the Company, and are recorded as mineral property acquisition costs upon payment.

The Company accounts for foreign value added taxes paid as expenses when incurred. The recovery of these taxes may commence on the beginning of foreign commercial operations. Should these amounts be recovered they would be treated as a recovery of exploration expenses at that time.

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.

***Equipment and Vehicles***

Equipment is recorded at cost less accumulated depreciation calculated using the straight-line method over their estimated useful lives of two years for geological equipment and five years for vehicles.

***Asset Retirement Obligations***

Asset retirement obligations are recognized when a legal obligation arises. This liability is recognized at the fair value of the asset retirement obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. Over time the liability is accreted to its present value each period, and the capitalized cost is amortized over the useful life of the related asset. Upon settlement of the liability, the Company may incur a gain or loss. As at December 31, 2010 the Company does not have any asset retirement obligations.

***Impairment of Long-lived Assets***

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. Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If an impairment is identified, the carrying value of the property interest is written down to its estimated fair value.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**  
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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Stock-based Compensation***

Stock-based compensation is accounted for at fair value as determined by using the Black-Scholes option pricing model and taking into account the terms and conditions upon which options were granted. For employees, the fair value of the options is measured at the date of the grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The estimated fair value of awards of stock-based compensation is charged to expense over the period that it is earned, with offsetting amounts to contributed surplus. If the stock-based compensation is for past services, it is expensed immediately. If the stock-based compensation is forfeited, no amounts are charged to expense. If stock options are exercised then the fair value of the options is reclassified from contributed surplus to share capital.

***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 and amortization which are translated at historical rates. The resulting gains or losses are reflected in operating results in the period of translation.

***Income Taxes***

The Company uses the asset and 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. The amount of future income tax assets recognized is limited to the amount that is more likely than not 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 Company follows the treasury stock method in the calculation of diluted earnings per share. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Since the Company has losses, the exercise of outstanding stock options and warrants has not been included in this calculation as it would be anti-dilutive. Information regarding securities that could potentially dilute basic earnings per share in the future is presented in Notes 9 and 10.

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**2. SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Valuation of equity units issued in private placements***

The Company has adopted a pro rata basis method with respect to the measurement of shares and warrants issued as private placement units. The pro rata basis method required each component to be valued at fair value and an allocation of the total proceeds received based on the pro rata relative values of the components. The fair value of the common shares is based on the closing quoted bid price on the announcement date and the fair value of the common share purchase warrants is determined at the announcement date using the Black- Scholes pricing model. The fair value attributed to the warrants is recorded in warrant equity.

***Management Estimates and Measurement Uncertainty***

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported years. Significant estimates include assumptions used in the determination of the fair value of stock-based compensation, the basis of impairment of mineral properties and future income taxes. Actual results could differ from those estimates.

***Financial Instruments***

The Company is required to designate its financial instruments into one of the following five categories: held for trading; available-for-sale; held to maturity; loans and receivables; and other financial liabilities. All financial instruments are to be initially measured at fair value. Financial instruments classified as held for trading or available-for-sale are subsequently measured at fair value with any change in fair value recorded in net earnings and other comprehensive income, respectively. All other financial instruments are subsequently measured at amortized cost.

The Company has designated its financial instruments as follows:

- (i) Cash and short-term investments are classified as “*Held-for-trading*”, and recorded at fair value with changes in fair value recorded in the statement of operations.
- (ii) Marketable securities are classified as “*Available-for-sale*”, and recorded at fair value with changes in fair value recorded in the statement of other comprehensive income. The fair value of marketable securities is obtained by reference to the closing quoted market price on the balance sheet date.
- (iii) Amounts receivable and deposits are classified as “*Loans and Receivables*”. These financial assets are recorded at values that approximate their amortized cost using the effective interest method.
- (iv) Accounts payable and accrued liabilities are classified as “*Other Financial Liabilities*.” These financial liabilities are recorded at values that approximate their amortized cost using the effective interest method.

***Comparative Figures***

Certain comparative figures have been reclassified to conform to the current period’s presentation. The accounts affected are amounts receivable and other receivable.

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**3. SHORT-TERM INVESTMENTS**

As at December 31, 2010 and December 31, 2009 the Company held the following:

	December 31, 2010	
	Maturity	Fair Value \$
12 months term deposits		
- 1.4% annual interest rate (\$1,000,000 principal)	December 22, 2011	1,000,345
- 1.3% annual interest rate (\$762,298 principal)	December 28, 2011	762,488
		<u>1,762,833</u>
	December 31, 2009	
	Maturity	Fair Value \$
12 months term deposits		
- Prime less 1.85% annual interest rate (\$575,000 principal)	August 13, 2010	575,895
- 0.35% annual interest rate (\$550,000 principal)	April 22, 2010	551,339
		<u>1,127,234</u>

All term deposits are redeemable in full or portion at the Company's option without penalty. Interest is paid on amounts redeemed subsequent to 30 days from the date of investment.

**4. MARKETABLE SECURITIES**

At December 31, 2010, the Company held the following:

	Quantity or Face Value	2010	2009
		Fair Value \$	Fair Value \$
Panthera Exploration Inc. common shares ("Panthera")	230,990	64,677	39,268
Alberta Treasury bonds with an annual interest rate of 4.1% maturing June 1, 2011	\$483,000	490,303	-
		<u>554,980</u>	<u>39,268</u>

The Company has designated its marketable securities as available-for-sale financial assets and accordingly, changes in fair value are recorded in other comprehensive income in the period in which they occur. An unrealized gain of \$24,018 (December 31, 2009 - \$23,099 gain) was recorded for the year ended December 31, 2010.

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**4. MARKETABLE SECURITIES** (continued)

An analysis of marketable securities including related gains and losses during the year is as follows:

	Year ended December 31, 2010 \$	Year ended December 31, 2009 \$
Marketable securities, beginning of year	39,268	16,169
Acquisition of securities	491,694	-
Unrealized gain (loss) included in other comprehensive loss	<u>24,018</u>	<u>23,099</u>
Marketable securities, end of year	<u><u>554,980</u></u>	<u><u>39,268</u></u>

**5. ROYALTY REVENUE**

In May 2009 the Company received its first quarterly payment from Yamana Gold Inc. (“Yamana”) from the Company’s 1% net smelter returns royalty (“NSR”) from the initial production at Yamana’s Gualcamayo gold mine, located in San Juan, Argentina. Regular quarterly payments are scheduled to be made on January 31<sup>st</sup>, April 30<sup>th</sup>, July 31<sup>st</sup> and October 31<sup>st</sup> of each year of the mine life.

For the year ended December 31, 2010, the Company earned \$1,616,065 (USD \$1,568,234) in royalty revenue from Yamana. As at December 31, 2010, \$460,361(USD \$462,860) (December 31, 2009 –\$540,485 (USD \$516,433)) is included in royalty receivable. For the year ended December 31, 2009, the Company earned \$1,335,714 (USD \$1,205,298) in royalty revenue from Yamana.

**6. EQUIPMENT**

	December 31, 2010			December 31, 2009		
	Cost \$	Accumulated Depreciation \$	Net Book Value \$	Cost \$	Accumulated Depreciation \$	Net Book Value \$
Geological equipment	44,488	11,122	33,366	-	-	-
Vehicles	30,338	6,068	24,270	-	-	-
	<u>74,826</u>	<u>17,190</u>	<u>57,636</u>	<u>-</u>	<u>-</u>	<u>-</u>

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**7. MINERAL PROPERTY INTERESTS**

On January 27, 2010, the Company completed the spinout of its Peruvian and Colombian properties by way of a statutory plan of arrangement (the "Arrangement"), originally announced in the Company's news release dated November 25, 2009. The Company, in exchange for 3,564,629 common shares and 1,921,800 warrants of Golden Alliance Resources Corp., paid \$930,000 and spun-out its Peruvian and Colombian mineral property interests with a carrying value of \$1,380,483. The shares and warrants were distributed to the Company's shareholders and warrant holders. The Company retained its Argentinean properties and its royalty interest in Yamana Gold Inc.'s Gualcamayo project.

The schedule below summarizes the carrying costs of acquisition costs and all exploration expenditures incurred to date for each mineral property interest that the Company is continuing to explore as at December 31, 2010 and December 31, 2009:

	December 31, 2010		December 31, 2009	
	Acquisition Costs \$	Cumulative Exploration Expenditures \$	Acquisition Costs \$	Cumulative Exploration Expenditures \$
Argentina				
Fronterra District	647,867	2,655,364	644,755	1,733,011
Mogote	176,718	-	167,924	-
Pescado	30,021	843,108	30,021	841,007
Purulla	128,473	259,953	117,981	6,302
Other	68,945	742,687	50,487	432,009
	1,052,024	4,501,112	1,011,168	3,012,329
Chile				
Mogote	8,464	5,288	-	-
	8,464	5,288	-	-
Peru				
Rio Tabaconas	-	-	1,310,867	3,517,528
Cocha	-	-	30,843	-
Mitu	-	-	15,513	-
Others	-	-	23,260	-
	-	-	1,380,483	3,517,528
	1,060,488	4,506,400	2,391,651	6,529,857

(a) Fronterra District, Argentina

The Company owns a 100% interest in the Fronterra District properties for which it paid consideration of USD \$120,000. The properties are subject to a net smelter return royalty ("NSR") of up to USD \$5,000,000 once commercial production is achieved.

(b) Varitas, La Rioja, Argentina

The Company's prospecting team had discovered a new high-grade polymetallic (gold-silver-copper-lead-zinc) structurally-controlled vein/stockwork target named Varitas in southern La Rioja Province, Argentina, near Yamana Gold Inc.'s 3.51 million ounce Gualcamayo gold mine. A 4,900 hectare concession was staked to cover the target.

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**7. MINERAL PROPERTY INTERESTS** (continued)

(c) Mogote Property, Argentina

On June 3, 2009 the Company entered into an agreement to acquire from Panthera the remaining 51% interest in the Mogote property not already held by the Company plus four Peruvian property concessions for consideration of \$168,870 (USD \$150,000) and a 1% NSR. This transaction received shareholder approval on July 22, 2009 and regulatory approval July 29, 2009. The amount allocated to the costs for Mogote was \$159,763.

On September 9, 2010 the Company entered into an option agreement with Vale Exploracion Argentina, S.A. ("Vale"), a wholly-owned subsidiary of Vale S.A., on its Mogote project in San Juan Province and its Purulla project in Catamarca Province, Argentina.

Under the terms of the option agreement Vale can earn an initial 70% interest in the projects by completing USD \$6.8 million in exploration expenditures and making USD \$2.8 million in cash payments to the Company over 3 years, in addition to making underlying vendor payments of USD \$1.025 million with regard to the Purulla project. If Vale elects to drop one of the two properties during the option, the overall terms will remain the same with the exception that if Purulla is dropped Vale will no longer be responsible for making the underlying vendor payments. Vale has the option to increase its interest to 85% by funding and delivering a Feasibility Study within a further 3 year period.

Subsequent to vesting, Vale will have the option for a further 2 years to purchase the Company's remaining 15% interest in the project for fair market value. Golden Arrow will retain a 1.5% Net Smelter Royalty (NSR) of which Vale will have the option to purchase 0.5% for USD \$7.0 million. Vale will be the operator during the term of the option. The exploration programs will be decided upon by a management committee comprised of one representative from each company. The option agreement includes a firm commitment by Vale to complete USD \$800,000 in exploration expenditures and make USD \$125,000 in vendor payments during the first year.

(d) Purulla, Argentina

On October 20, 2009 the Company entered into an option agreement to earn a 100% interest in the Purulla Project in Catamarca Province, Argentina. The agreement requires the Company to make payment of USD \$100,000 on signing (paid) and further payments totaling USD \$1,025,000 over the next three years to acquire 100% of the properties as follows:

Option Payment USD \$	Date
125,000	October 20, 2010 (paid)
200,000	October 20, 2011
700,000	October 20, 2012
<u>1,025,000</u>	

These payments will be paid by Vale as part of the option agreement described above.

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**7. MINERAL PROPERTY INTERESTS** (continued)

(e) **Pescado Gold Project, San Juan, Argentina**

The Company holds four mineral claims in the Gualcamayo area of San Juan: Sierra Pescado I, Sierra Pescado II, Durazno and Yanso. These 100% owned claims cover approximately 18,000ha and form the Pescado Gold Project.

In 2008, the Company negotiated with Barrick Gold Exploration through its subsidiary Barrick Exploraciones Argentina S.A. ("BEASA") to provide a right of way to access water from Golden Arrow's Rio de las Taguas property. In exchange for providing access to water for BEASA's Pascua Lama gold project, Golden Arrow acquired from BEASA 100% of the 1,592ha Aspero 1 claim. This claim is strategically important for Golden Arrow because it is contiguous to the Company's 100% owned Pescado Gold Project which now totals 19,194ha.

**8. PLAN OF ARRANGEMENT AND DIVIDEND OF PERUVIAN AND COLOMBIAN ASSETS**

On January 27, 2010, the Company completed the spinout of its Peruvian and Colombian properties by way of a statutory plan of arrangement (the "Arrangement"), originally announced in the Company's news release dated November 25, 2009. According to the arrangement, the Company, in exchange for 3,564,629 common shares and 1,921,800 warrants of Golden Alliance Resources Corp. ("Golden Alliance"), paid \$930,000 and spun-out its Peruvian and Colombian mineral property interests with a carrying value of \$1,380,483. The shares and warrants were distributed to the Company's shareholders and warrant holders as a special dividend. The Company retained its Argentinean properties, its royalty interest in Yamana Gold Inc.'s Gualcamayo project and its royalty interest on Rio Tabaconas.

During the year ended December 31, 2009, the shareholders of the Company voted in favour of the November 25, 2009 proposed Plan of Arrangement. In January 2010, Supreme Court approval in the Province of British Columbia was obtained for the Plan of Arrangement.

The result of the Plan of Arrangement was for each ten common shares of the Company, shareholders would receive one share of Golden Alliance Resources Corp., a wholly owned subsidiary. For each ten common share purchase warrants of the Company, warrant holders would receive one common share purchase warrant of Golden Alliance. Each shareholder continued to hold one share of the Company and one share of Golden Alliance, for each ten shares of the Company held and each warrant holder continued to hold one common share purchase warrant of the Company and one common share purchase warrant of Golden Alliance, for each ten common share purchase warrants of the Company held on the effective date of the Plan of Arrangement.

The Effective Date of the Plan of Arrangement was January 27, 2010 whereby each holder of the common shares of the Company on January 25, 2010 ("ex-rights date") was entitled to receive one common share of Golden Alliance for every ten common shares of the Company held. Also, each holder of the common share purchase warrants of the Company on the ex-rights date was entitled to receive one common share warrant of Golden Alliance for every ten common shares warrants of the Company held.

According to the terms of the Plan of Arrangement, the Company, in exchange for 3,564,629 common shares and 1,921,800 warrants of Golden Alliance Resources Corp., paid \$930,000 and spun-out its Peruvian and Colombian mineral property interests with a carrying value of \$1,380,483. The shares and warrants were distributed to the Company's shareholders and warrant holders as a special dividend.

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**9. SHARE CAPITAL AND WARRANTS**

At December 31, 2010, the Company had unlimited authorized common shares without par value. As at December 31, 2010, an aggregate of 46,224,655 common shares were issued and outstanding.

On January 9, 2009, the Company closed a non-brokered private placement financing of 5,189,000 units at a price of \$0.15 per unit, for gross proceeds of \$778,350. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share, exercisable at a price of \$0.25 expiring January 9, 2011. A finders' fee of \$38,682 was paid in cash to an arm's length party on a portion of the financing.

On April 29, 2009, the Company closed a non-brokered private placement financing of 9,054,000 units at a price of \$0.25 per unit, for gross proceeds of \$2,263,500. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share, exercisable at a price of \$0.40 expiring October 17, 2010. A finders' fee of \$167,234 was paid in cash to an arm's length party on a portion of the financing.

On July 30, 2009, the Company closed a non-brokered private placement financing of 5,115,000 units at a price of \$0.25 per unit for gross proceeds of \$1,278,750. Each unit consisted of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share, exercisable at a price of \$0.40 expiring January 30, 2011. A finders' fee of \$79,300 was paid in cash to an arm's length party on a portion of the financing.

On January 7, 2010, the Company closed a non-brokered private placement financing of 680,000 common shares at a price of \$0.33 per share, for gross proceeds to the Company of \$224,400.

On November 3, 2010, the Company closed a non-brokered private placement financing of 4,000,000 common shares at a price of \$0.35 per share, for gross proceeds to the Company of \$1,400,000. A finder's fee of \$42,000 was paid in cash to an arm's length party on a portion of the financing.

**10. STOCK OPTIONS**

The Company has established a rolling stock option plan (the "Plan"), in which the maximum number of common shares which can be reserved for issuance under the Plan is 10% of the issued and outstanding shares of the Company. The exercise price of the options is set at the Company's closing share price on the grant date, less allowable discounts in accordance with the policies of the TSX Venture Exchange. Stock options granted vest immediately and are subject to a four-month hold period and exercisable for a period of five years.

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**10. STOCK OPTIONS** (continued)

Stock option transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price \$
Balance at December 31, 2008	1,293,900	0.87
Granted	1,650,000	0.35
Expired	(20,000)	1.00
Balance at December 31, 2009	2,923,900	0.58
Granted	2,155,000	0.37
Cancelled	(60,000)	0.35
Expired	(610,900)	0.75
Balance at December 31, 2010	4,408,000	0.46
Number of stock options exercisable	4,408,000	0.46

As at December 31, 2010, the following stock options were outstanding and exercisable as follows:

Number	Exercise Price \$	Expiry Date
75,000	0.80	March 15, 2012
588,000	1.00	September 10, 2012
1,590,000	0.35	May 7, 2014
100,000	0.36	March 31, 2015
150,000	0.36	April 22, 2015
960,000	0.35	October 1, 2015
75,000	0.38	October 29, 2015
870,000	0.40	November 4, 2015
4,408,000		

Stock options granted during 2010 vest immediately but are subject to a four month hold period. Total stock-based compensation recognized for the fair value of stock options granted, vested and approved by the shareholders during the year ended December 31, 2010 was \$561,177 (year ended December 31, 2009 - \$265,298).

The weighted average fair value of stock options granted is estimated to be \$0.26 for the year ended December 31, 2010 (year ended December 31, 2009 – \$0.16) by using the Black-Scholes options pricing model with the following weighted average assumptions:

	Year Ended December 31, 2010	Year Ended December 31, 2009
Risk-free interest	1.90%	0.87%
Expected dividend yield	-	-
Expected stock price volatility	83%	85%
Expected option life in years	3.27	3.0

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**11. WARRANTS**

Share purchase warrant transactions are summarized as follows:

	Number of Shares	Weighted Average Exercise Price \$
Balance at December 31, 2009	19,283,000	0.36
Exercised	(6,643,000)	0.35
Expired	(3,769,000)	0.36
Balance at December 31, 2010	8,871,000	

At December 31, 2010, the following warrants were outstanding as follows:

Number	Exercise Price \$	Expiry Date
4,716,000	0.225	January 9 , 2011
4,155,000	0.36	January 30 , 2011
8,871,000		

Pursuant to the Plan of Arrangement (Note 8), the exercise prices of all outstanding warrants of the Company as of January 27, 2010 were reduced by 10%.

**12. RELATED PARTY TRANSACTIONS**

- (a) On March 31, 2010, the Company and Blue Sky Uranium Corp. (“Blue Sky”) collectively entered into a sale agreement with an officer and director of the Company to sell their shares held in Grosso Group Management Ltd., (“Grosso Group”) for proceeds of \$1. On April 1, 2010, the Company entered into a Management Services Agreement (“Agreement”) with Grosso Group to provide services and facilities to the Company. Grosso Group provides its member companies with administrative and management services. The member companies pay monthly fees to Grosso Group on a cost recovery basis. The fee is based upon a pro-rating of Grosso Group’s costs including its staff and overhead costs among the member companies. The initial fee based on expected usage is \$50,000 per month. This fee is reviewed and adjusted quarterly based on the level of services required. The Agreement expires on December 31, 2012. The Agreement contains termination and early termination fees in the event the services are terminated by the Company.

The termination fee includes three months of compensation and any contractual obligations that Grosso Group undertook for the Company, up to a maximum of \$750,000. The early termination fees are the aggregate of the termination fee in addition to the lesser of the monthly fees calculated to the end of the term and the monthly fees calculated for eighteen months, up to a maximum of \$1,000,000.

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**12. RELATED PARTY TRANSACTIONS (continued)**

During the year ended December 31, 2010, the Company incurred fees of \$602,772 (2009 - \$664,357). A total of \$260,100 (2009 - \$687,171) was paid in monthly payments and \$Nil is included in amounts receivable (2009 - \$22,814). An officer and a director's salary comprise a portion of the fee. In addition, included in deposits is a \$50,000 (2009 - \$85,000) deposit to the Grosso Group for the purchase of equipment and leasehold improvements and for operating working capital. The Company was allocated an expense recovery of \$Nil (2009 - \$255,000) and \$Nil (2009 - \$255,000) is included in prepaid expenses.

- (b) During the year ended December 31, 2010, the Company incurred \$48,151 (2009 - \$9,375) for consulting services provided by a company owned by a director of the Company.
- (c) During the year ended December 31, 2010, the Company incurred \$79,000 (2009 - \$252,113) for geological consulting services, provided by a company owned by an officer and director of the Company.

All of the related party transactions and balances in these consolidated financial statements arose in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**13. INCOME TAXES**

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

	<b>2010</b>	<b>2009</b>
Statutory tax rate	28.50%	30.00%
	<u>\$</u>	<u>\$</u>
Loss before income taxes	<u>(1,687,622)</u>	<u>(2,501,406)</u>
Provision for (recovery of) income taxes based on statutory		
Canadian combined federal and provincial income tax rates	(480,972)	(750,422)
Non-deductible differences and others	186,894	428,464
Income tax rate change and differential between Canadian rate and rates applicable to entities in other countries	36,854	135,097
Losses of assets dividend to shareholders	337,166	-
Change in valuation allowance	(127,634)	136,736
Other	<u>21,343</u>	<u>(69,144)</u>
Income tax recovery	<u>(26,349)</u>	<u>(119,269)</u>

Future incomes 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 and liabilities are as follows:

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**13. INCOME TAXES** (continued)

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Future income tax assets		
Financing costs	71,817	98,312
Operating loss carryforwards	1,426,980	1,622,559
Resource deductions	2,107,098	2,014,560
Other	118,415	116,513
	3,724,310	3,851,944
Valuation allowance for future income tax assets	(3,724,310)	(3,851,944)
	-	-

The Company has Canadian non-capital loss carryforwards of \$5,253,552 that may be available for tax purposes. The Company's non-capital losses expire as follows:

<b>Expiry Date</b>	<b>\$</b>
2014	159,671
2015	225,936
2026	133,320
2027	806,306
2028	1,396,186
2029	1,214,211
2030	1,317,922
	5,253,552

At December 31, 2010, the Company had a net operating loss carryforward for Argentina income tax purposes of approximately \$323,917 (2009 –\$958,986) which, if not utilized to reduce Argentinean taxable income in future periods, expires through the year 2014. These available tax losses may only be applied to offset future taxable income from the Company's current Argentinean subsidiary.

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**14. COMMITMENTS**

	1 Year	2 Years	3 Years	4-5 Years	More than 5
	\$	\$	\$	\$	Years
	\$	\$	\$	\$	\$
Management Services Agreement	600,000	600,000	-	-	-
Consulting fees	4,500	-	-	-	-

On April 1, 2010, the Company entered into an Agreement with Grosso Group to provide services and facilities to the Company (see Note 12). Grosso Group provides its member companies with administrative and management services. The member companies pay monthly fees to Grosso Group on a cost recovery basis. The fee is based upon a pro-rating of Grosso Group's costs including its staff and overhead costs among the member companies. The initial fee based on expected usage is \$50,000 per month. This fee is reviewed and adjusted quarterly based on the level of services required.

**15. SEGMENTED INFORMATION**

The Company is primarily involved in mineral exploration activities in Argentina. The Company is in the exploration stage and, accordingly, has no reportable segment revenues or operating revenues for the year ended December 31, 2010.

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

	December 31, 2010			
	Canada	Chile	Argentina	Total
	\$	\$	\$	\$
Current assets	3,884,516	-	752,412	4,636,928
Deposit	50,000	-	-	50,000
Other receivable	-	-	132,821	132,821
Equipment	33,366	-	24,270	57,636
Mineral property interests	-	8,464	1,052,024	1,060,488
	3,967,882	8,464	1,961,527	5,937,873

	December 31, 2009				
	Canada	Argentina	Peru	Colombia	Total
	\$	\$	\$	\$	\$
Current assets	1,998,775	771,444	38,996	20,428	2,829,643
Deposit	85,000	-	-	-	85,000
Other receivable	-	42,683	-	-	42,683
Mineral property interests	-	1,011,168	1,380,483	-	2,391,651
	2,083,775	1,825,295	1,419,479	20,428	5,348,977

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**16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	Year ended December 31, 2010 \$	Year ended December 31, 2009 \$
Non-cash investing and financing activities		
Warrants exercised	(320,782)	(3,305)
Interest paid in cash	-	-
Income taxes paid in cash	-	-

**17. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT**

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, and interest rate risk. Where material, these risks are reviewed and monitored by the Board of Directors.

**(a) Fair Values**

The Company's financial instruments consist of cash, short-term investments, marketable securities, receivables, and accounts payable. The fair value of cash, short term investments, receivables and accounts payable approximates their carrying values due to the immediate or short-term maturity of these financial instruments.

The Company's marketable securities are classified as available for sale and fair value is determined using bid prices at the balance sheet date with any temporary unrealized gains or losses recognized in other comprehensive income.

The following table outlines the Company's financial assets and liabilities measured at fair value by level within the fair value hierarchy described below. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

As at December 31, 2010 the Company's financial instruments measured at fair value are as follows:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Cash	1,759,200	-	-	1,759,200
Short-term investments	1,762,833	-	-	1,762,833
Marketable securities	554,980	-	-	554,980

As at December 31, 2009 the Company's financial instruments measured at fair value are as follows:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Cash	629,995	-	-	629,995
Short-term investments	1,127,234	-	-	1,127,234
Marketable securities	39,268	-	-	39,268

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**17. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT (continued)**

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

**(b) Financial Instrument Risk Exposure**

***Credit risk***

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist of cash and amounts receivable. As a portion of its receivables is with the government of Canada in the form of sales tax, the credit risk is minimal. The majority of the remaining receivables are in the form of royalty receivable held with Yamana Gold Inc (“Yamana”). Therefore, the Company is not exposed to significant credit risk and overall the Company’s credit risk has not changed significantly from the prior year.

***Liquidity risk***

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due (Note 1). The Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company has historically relied on issuance of shares and warrants to fund exploration programs and may require doing so again in the future.

***Market risk***

**(i) *Currency risk***

Financial instruments that impact the Company’s net earnings or other comprehensive income due to currency fluctuations include: US dollars and Argentine Pesos, all denominated in cash, amounts receivable and accounts payable. The sensitivity of the Company’s net earnings and other comprehensive income to changes in the exchange rate between the Canadian dollar and the United States dollar and Argentine Pesos is summarized in the table below:

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**17. FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT** (continued)

	December 31, 2010			
	10% Increase in the Argentine Peso \$	10% Decrease in the Argentine Peso \$	10% Increase in the US Dollar \$	10% Decrease in the US Dollar \$
Increase (decrease) in net earnings	23,853	(23,853)	65,521	(65,521)
Increase (decrease) in other comprehensive (loss) income	-	-	-	-
Comprehensive (loss) income	23,853	(23,853)	65,521	(65,521)

**(ii) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cash bears no interest, short-term investments and marketable securities are redeemable at any time without penalty. The fair value of cash, short-term investments and marketable securities approximates their carrying values due to the immediate or short-term maturity of these financial instruments.

Other current financial assets and liabilities are not exposed to interest rate risk because they are non-interest bearing.

**(c) Capital Management**

The Company's objectives of capital management are intended to safeguard the entity's ability to support the Company's normal operating requirements on an ongoing basis, continue the development and exploration of its mineral properties and support any expansionary plans.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, contributed surplus and deficit. The Company manages the capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the Company's assets.

To effectively manage the entity's capital requirements, the Company has in place a planning and budgeting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. The Company has historically relied on issuance of shares to develop the project and may require doing so again in the future.

**18. SUBSEQUENT EVENTS**

Subsequent to December 31, 2010:

- 8,869,000 warrants with exercise prices of \$0.225 to \$0.36 were exercised for proceeds of \$2,556,450 and 2,000 warrants with an exercise price of \$0.225 expired.
- 170,000 options with an exercise price of \$0.35 were exercised for proceeds of \$59,500 and 10,000 options with an exercise price of \$1.00 expired.