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# **GOLDEN ARROW RESOURCES CORPORATION**

*(An Exploration Stage Company)*

CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2009 AND 2008

*(Expressed in Canadian Dollars)*

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## 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, 2009 and 2008 and the consolidated statements of loss and deficit, comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

**Chartered Accountants**  
Vancouver, British Columbia

*(signed) PricewaterhouseCoopers LLP*

April 26, 2010

**GOLDEN ARROW RESOURCES CORPORATION**  
(An Exploration Stage Company)

**CONSOLIDATED BALANCE SHEETS**  
**AS AT DECEMBER 31**  
(Expressed in Canadian Dollars)

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	629,995	372,141
Short-term investments (Note 3)	1,127,234	657,878
Amounts receivable	241,976	103,538
Royalty income receivable	540,485	-
Prepaid expenses	293,368	39,878
Marketable securities (Note 4)	39,268	16,169
	<u>2,872,326</u>	<u>1,189,604</u>
<b>DEPOSIT</b> (Note 10)	85,000	85,000
<b>LONG-TERM INVESTMENT</b> (Note 5)	-	186,392
<b>MINERAL PROPERTY INTERESTS</b> (Note 7)	<u>2,391,651</u>	<u>2,165,348</u>
	<u><u>5,348,977</u></u>	<u><u>3,626,344</u></u>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (Note 10)	<u>176,017</u>	<u>175,241</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>SHARE CAPITAL</b> (Note 8)	12,155,608	9,144,655
<b>WARRANTS</b> (Note 8)	1,043,182	795,128
<b>CONTRIBUTED SURPLUS</b> (Note 9)	13,451,553	12,510,396
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>	23,099	-
<b>DEFICIT</b>	<u>(21,500,482)</u>	<u>(18,999,076)</u>
	<u>5,172,960</u>	<u>3,451,103</u>
	<u><u>5,348,977</u></u>	<u><u>3,626,344</u></u>
<b>COMMITMENTS</b> (Note 7)		
<b>SUBSEQUENT EVENTS</b> (Note 15)		

APPROVED BY THE BOARD OF DIRECTORS

“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 LOSS AND DEFICIT**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(Expressed in Canadian Dollars)

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>EXPENSES</b>		
Administrative and management services	338,966	126,090
Corporate development and investor relations	90,612	171,343
Exploration	1,855,223	2,918,776
Office and sundry	189,292	178,464
Printing	4,160	14,707
Professional fees	308,112	83,931
Rent, parking and storage	96,762	69,943
Salaries and employee benefits	406,070	376,799
Stock-based compensation (Note 8)	265,298	11,752
Transfer agent and regulatory fees	51,413	24,423
Travel and accommodation	72,135	44,597
	<u>3,678,043</u>	<u>4,020,825</u>
<b>LOSS BEFORE OTHER ITEMS</b>	<u>(3,678,043)</u>	<u>(4,020,825)</u>
<b>OTHER INCOME (EXPENSE)</b>		
Royalty income (Note 6)	1,335,714	-
Foreign exchange loss	(233,036)	(46,076)
Write-down of marketable securities (Note 4)	-	(866,692)
Gain on sale of long-term investment (Note 5)	20,710	-
Write-down of mineral properties (Note 7)	(341,630)	-
Interest and other income	20,610	109,444
Expense recovery (Note 10)	255,000	-
	<u>1,057,368</u>	<u>(803,324)</u>
<b>LOSS BEFORE INCOME TAX RECOVERY</b>	<u>(2,620,675)</u>	<u>(4,824,149)</u>
<b>INCOME TAX RECOVERY</b> (Note 11)	<u>119,269</u>	<u>-</u>
<b>LOSS FOR THE YEAR</b>	<u>(2,501,406)</u>	<u>(4,824,149)</u>
<b>DEFICIT - BEGINNING OF YEAR</b>	<u>(18,999,076)</u>	<u>(14,174,927)</u>
<b>DEFICIT - END OF YEAR</b>	<u>(21,500,482)</u>	<u>(18,999,076)</u>
 <b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<u>\$ (0.09)</u>	<u>\$ (0.31)</u>
 <b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<u>29,251,263</u>	<u>15,418,081</u>

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

**GOLDEN ARROW RESOURCES CORPORATION**  
*(An Exploration Stage Company)*

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
*(Expressed in Canadian Dollars)*

	<u>Year Ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
	\$	\$
<b>LOSS FOR YEAR</b>	(2,501,406)	(4,824,149)
<b>OTHER COMPREHENSIVE LOSS</b>		
Unrealized gain (loss) on available-for-sale marketable securities	23,099	(399,613)
Write-down of marketable securities	-	<u>866,692</u>
<b>COMPREHENSIVE LOSS FOR THE YEAR</b>	<u>(2,478,307)</u>	<u>(4,357,070)</u>

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**GOLDEN ARROW RESOURCES CORPORATION**  
(An Exploration Stage Company)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(Expressed in Canadian Dollars)

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>CASH PROVIDED FROM (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	(2,501,406)	(4,824,149)
Items not affecting cash		
Gain on sale of long-term investment	(20,710)	-
Stock-based compensation	265,298	11,752
Write-off of mineral property interests	341,630	-
Write-down of marketable securities	-	866,692
Income tax recovery	(119,269)	-
	<u>(2,034,457)</u>	<u>(3,945,705)</u>
Changes in non-cash working capital balances		
Amounts receivable	(678,923)	(3,985)
Prepaid expenses	(253,490)	(3,096)
Accounts payable and other accrued liabilities	776	(177,781)
Accrued interest	5,644	83,365
	<u>(2,960,450)</u>	<u>(4,047,202)</u>
<b>INVESTING ACTIVITIES</b>		
Expenditures on mineral properties	(567,933)	(388,499)
Decrease (increase) in short-term investments	(475,000)	4,350,000
Proceeds on sale of long-term investment	207,102	-
	<u>(835,831)</u>	<u>3,961,501</u>
<b>FINANCING ACTIVITIES</b>		
Issuance of common shares and warrants	4,339,350	168,000
Share issue costs	(285,215)	-
	<u>4,054,135</u>	<u>168,000</u>
<b>INCREASE IN CASH</b>	<b>257,854</b>	<b>82,299</b>
<b>CASH – BEGINNING OF YEAR</b>	<b>372,141</b>	<b>289,842</b>
<b>CASH – END OF YEAR</b>	<b>629,995</b>	<b>372,141</b>

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**GOLDEN ARROW RESOURCES CORPORATION**  
(An Exploration Stage Company)

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(Expressed in Canadian Dollars)

	2009 \$	2008 \$
<b>SHARE CAPITAL</b>		
Balance at beginning of year	9,144,655	8,936,344
Private placements	4,320,600	-
Warrant valuation	(1,118,784)	-
Exercise of warrants	18,750	168,000
Reallocation of warrant equity on exercise of warrants	3,305	40,311
Share issue costs	(212,918)	-
Balance at end of year	<u>12,155,608</u>	<u>9,144,655</u>
<b>WARRANTS</b>		
Balance at beginning of year	795,128	835,439
Warrants issued	1,118,784	-
Warrant issue costs	(72,297)	-
Reallocation of warrant equity on the exercise of warrants	(3,305)	(40,311)
Reallocation of warrant equity on expiry of warrants	(795,128)	-
Balance at end of year	<u>1,043,182</u>	<u>795,128</u>
<b>CONTRIBUTED SURPLUS</b>		
Balance at beginning of year	12,510,396	12,498,644
Contributed surplus as a result of stock options granted	265,298	11,752
Reallocation of warrant equity on expiry of warrants	795,128	-
To recognize capital gain tax on expired warrants	(119,269)	-
Balance at end of year	<u>13,451,553</u>	<u>12,510,396</u>
<b>DEFICIT</b>		
Balance at beginning of year	(18,999,076)	(14,174,927)
Loss for the year	(2,501,406)	(4,824,149)
Balance at end of year	<u>(21,500,482)</u>	<u>(18,999,076)</u>
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>		
Balance at beginning of year	-	(467,079)
Unrealized loss on available-for-sale marketable securities	23,099	(399,613)
Write-down of marketable securities	-	866,692
Balance at end of year	<u>23,099</u>	<u>-</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>5,172,960</u>	<u>3,451,103</u>

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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**

**ACQUISITION COSTS**

<i>Expressed in Canadian Dollars</i>	Argentina							Peru			Colombia	Total
	Valle de Cura \$	Mogote \$	Poncha \$	Jujuy \$	Pescado \$	Purulla \$	Other \$	Rio Tabaconas \$	Cocha \$	Other \$	La Morena \$	\$
<b>BALANCE – BEGINNING OF YEAR</b>	638,197	-	141,192	10,395	30,021	-	34,676	1,310,867	-	-	-	2,165,348
<b>ACQUISITION COSTS DURING THE YEAR:</b>												
Cash	6,558	167,924	90,417	-	-	117,981	15,811	-	30,843	38,773	99,626	567,933
	644,755	167,924	231,609	10,395	30,021	117,981	50,487	1,310,867	30,843	38,773	99,626	2,733,281
Write-off of mineral property	-	-	(231,609)	(10,395)	-	-	-	-	-	-	(99,626)	(341,630)
<b>BALANCE - END OF YEAR</b>	<b>644,755</b>	<b>167,924</b>	<b>-</b>	<b>-</b>	<b>30,021</b>	<b>117,981</b>	<b>50,487</b>	<b>1,310,867</b>	<b>30,843</b>	<b>38,773</b>	<b>-</b>	<b>2,391,651</b>

**EXPLORATION EXPENDITURES**

<i>Expressed in Canadian Dollars</i>	Argentina							Peru			Colombia	Total
	Valle de Cura \$	Mogote \$	Poncha \$	Jujuy \$	Pescado \$	Purulla \$	Other \$	Rio Tabaconas \$	Cocha \$	Other \$	La Morena and Other \$	\$
<b>CUMULATIVE EXPLORATION COSTS EXPENSED – BEGINNING OF YEAR</b>	1,723,366	-	2,070,677	2,038,455	840,915	-	408,541	3,079,940	-	-	-	10,161,894
<b>EXPLORATION EXPENDITURES DURING THE YEAR:</b>												
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	543	85	-	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 tax	-	-	5,397	-	-	-	-	9,903	-	-	-	15,300
IVA	1,207	-	98,575	190	7	-	2,926	27,196	-	-	-	130,101
	9,645	-	1,232,877	2,551	92	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>	<b>1,733,011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>841,007</b>	<b>6,302</b>	<b>432,009</b>	<b>3,517,528</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,529,857</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, 2008**  
*(Expressed in Canadian Dollars)*

**ACQUISITION COSTS**

	Argentina						Peru	Total
	Valle de Cura \$	Poncha \$	Jujuy \$	Pescado \$	Neuquen \$	Other \$	Rio Tabaconas \$	
<b>BALANCE – BEGINNING OF YEAR</b>	570,250	-	1,864	26,301	-	18,802	1,159,632	1,776,849
<b>ACQUISITION COSTS DURING THE YEAR:</b>								
Cash	67,947	141,192	8,531	3,720	2,139	13,735	151,235	388,499
<b>BALANCE - END OF YEAR</b>	<u>638,197</u>	<u>141,192</u>	<u>10,395</u>	<u>30,021</u>	<u>2,139</u>	<u>32,537</u>	<u>1,310,867</u>	<u>2,165,348</u>

**EXPLORATION EXPENDITURES**

	Argentina						Peru	Colombia	Total
	Valle de Cura \$	Poncha \$	Jujuy \$	Pescado \$	Neuquen \$	Other \$	Rio Tabaconas \$	General Exploration \$	
<b>CUMULATIVE COSTS EXPENSED – BEGINNING OF YEAR</b>	1,668,936	1,526,146	859,860	492,828	145,832	216,636	2,699,305	201,483	7,811,026
<b>EXPLORATION EXPENDITURES DURING THE YEAR:</b>									
Assays	-	26,433	6,345	-	-	-	-	-	32,778
Communications	343	7,219	5,526	269	1,822	910	-	-	16,089
Drilling	-	159,895	444,523	-	-	-	-	-	604,418
Environmental	-	4,508	26,077	3,002	8,244	-	-	-	41,831
Geophysics	-	-	-	205,457	-	-	-	-	205,457
Metallurgy	-	-	30,336	1,336	-	-	-	-	31,672
Office	16,538	106,517	214,969	54,222	13,983	817	110,058	287,583	804,687
Salaries and contractors	22,886	106,949	250,876	46,276	6,077	2,320	178,599	78,842	692,825
Supplies and equipment	-	20,652	5,657	251	-	-	-	-	26,560
Transportation	-	39,024	60,209	2,338	2,794	489	15,882	-	120,736
Social	-	407	3,910	51	-	-	40,261	-	44,629
Statutory and tax	2,620	5,445	13,342	264	750	1,016	-	-	23,437
IVA	12,043	67,482	116,825	34,621	3,909	2,942	35,835	-	273,657
	<u>54,430</u>	<u>544,531</u>	<u>1,178,595</u>	<u>348,087</u>	<u>37,579</u>	<u>8,494</u>	<u>380,635</u>	<u>366,425</u>	<u>2,918,776</u>
<b>CUMULATIVE COSTS EXPENSED – END OF YEAR</b>	<u>1,723,366</u>	<u>2,070,677</u>	<u>2,038,455</u>	<u>840,915</u>	<u>183,411</u>	<u>225,130</u>	<u>3,079,940</u>	<u>567,908</u>	<u>10,729,802</u>

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**GOLDEN ARROW RESOURCES CORPORATION**  
*(An Exploration Stage Company)*  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
*(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 in the process of exploring its mineral properties and evaluating other mineral properties in South America. 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 Company has not generated any revenues from its operations to date and consequently is considered to be in the exploration stage. The amounts shown as mineral properties 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 properties 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.

**2. SIGNIFICANT ACCOUNTING POLICIES**

***Basis of presentation***

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”).

***Principles of Consolidation***

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

***Cash and Cash Equivalents***

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

***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 designated 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 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, 2009 AND 2008**  
*(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. 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.

***Asset Retirement Obligations***

Asset retirement obligations are recognized when a legal or constructive 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, 2009 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.

***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 operating results in the period of translation.

**GOLDEN ARROW RESOURCES CORPORATION**  
*(An Exploration Stage Company)*  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
*(Expressed in Canadian Dollars)*

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

***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 antidilutive. Information regarding securities that could potentially dilute basic earnings per share in the future is presented in Note 8.

***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.

***Stock-based Compensation***

Stock-based compensation is accounted for at fair value as determined by the Black-Scholes option pricing model using amounts that are believed to approximate the volatility of the trading price of the Company's stock, the expected lives of awards of stock-based compensation, the fair value of the Company's stock and the risk-free interest rate. 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 re-classified from contributed surplus to share capital.

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

***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.

***Recent Accounting Pronouncements***

Effective January 1, 2009, new accounting standards were issued by the CICA which may impact the Company in the future as follows:

**(a) *Goodwill and Intangible Assets***

CICA Handbook Section 3064, *Goodwill and Intangible Assets*, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Concurrent with the introduction of this standard, the CICA withdrew EIC 27, Revenues and Expenses during the preoperating period. On January 1, 2009, the Company adopted these changes, with no impact on its consolidated financial statements.

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

**(b) *Credit Risk and Fair Value of Financial Assets and Liabilities***

In January 2009, the CICA issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*. The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments.

This standard is effective for our fiscal year beginning January 1, 2009. Adoption of this EIC did not have a significant effect on the Company's financial statements for the year ended December 31, 2009.

**(c) *Mining Exploration Costs***

In March 2009, the CICA issued EIC-174, *Mining Exploration Costs*. The EIC provides guidance on the accounting and the impairment review of exploration costs. This standard is effective for our fiscal year beginning January 1, 2009. The application of this EIC did not have an effect on the Company's consolidated financial statements for the year ended December 31, 2009.

**(d) *General Standard of Financial Statement Presentation***

For the year ended December 31, 2009, the Corporation adopted the amendments to CICA Handbook Section 3862, *Financial Instruments – Disclosures*, which expands financial instrument fair value measurement and liquidity risk management disclosures.

***Future Accounting Standards***

***Business combinations, consolidated financial statements and non-controlling interest***

In January 2009, the CICA issued CICA Handbook Section 1582, *Business Combinations*, Section 1601, *Consolidations*, and Section 1602, *Non-controlling Interests*. These sections replace the former CICA Handbook Section 1581, *Business Combinations* and Section 1600, *Consolidated Financial Statements* and establish a new section for accounting for a non-controlling interest in a subsidiary. CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. It provides the Canadian equivalent to IFRS 3, *Business Combinations* (January 2008). The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

CICA Handbook Section 1601 establishes standards for the preparation of consolidated financial statements.

CICA Handbook Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the preparation of consolidated financial statements subsequent to a business combination.

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

CICA Handbook Section 1601 and Section 1602 apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year.

All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections.

**3. SHORT-TERM INVESTMENTS**

As at December 31, 2009 and 2008, the Company held the following term deposits:

	<b>December 31, 2009</b>	
	<b>Maturity</b>	<b>Fair Value</b>
		<b>\$</b>
12 month term deposit		
- 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>
		<u><u>1,127,234</u></u>
	<b>December 31, 2008</b>	
	<b>Maturity</b>	<b>Principal</b>
		<b>\$</b>
12 month term deposit		
- 3.15% annual interest rate (\$650,000 principal)	August 12, 2009	657,878
		<u>657,878</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, 2009, the Company held 230,990 (2008 - 230,990) common shares of Panthera Exploration Inc. ("Panthera") (formerly Amera Resources Corporation) which had a quoted market value of \$39,268 (2008 - \$16,169). 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 they occur. An unrealized gain of \$23,099 (2008 - \$399,613 loss) was recorded for the year ended December 31, 2009. The Company holds these marketable securities as a result of entering into option and sale agreements for certain of its mineral property holdings in Argentina. In 2008 management determined that the decrease in fair value of Panthera was other than temporary. As a result a loss \$866,692 was recorded in Other income (expenses).

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**5. LONG-TERM INVESTMENTS**

As at December 31, 2009 the Company did not hold any asset-backed commercial paper. As at December 31, 2008, the Company held asset-backed commercial paper as follows:

	December 31, 2008	
	Principal \$	Fair Value \$
Asset-backed commercial paper	207,102	186,392

Based on the assessment of fair value as at December 31, 2008, the Company recorded in income an impairment loss of \$20,710 related to this investment, representing a 10% valuation allowance of the original principal amount. On February 5, 2009 the Company received \$214,661 for the principal and unpaid interest of \$7,559. As a result, a recovery of \$20,710 was recorded during the current year.

**6. ROYALTY REVENUE**

On May 29, 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 1<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.

The schedule below summarizes quarterly payments received from Yamana for the year ended December 31, 2009:

NSR Payment for the Quarter Ended	Payment Date	Amount (CDN\$)	Amount (US\$)
March 31, 2009	May 29, 2009	169,375	138,658
June 30, 2009	July 31, 2009	223,340	206,988
September 30, 2009	October 31, 2009	376,682	343,218
December 31, 2009	January 31, 2010	566,317	516,434
		1,335,714	1,205,298

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**7. MINERAL PROPERTY INTERESTS**

The schedule below summarizes all costs incurred to date for each mineral property interest that the company is continuing to explore as at December 31, 2009 and 2008:

	December 31, 2009			December 31, 2008		
	Acquisition Costs \$	Exploration Expenditures \$	Total \$	Acquisition Costs \$	Exploration Expenditures \$	Total \$
Argentina						
Valle de Cura	644,755	1,733,011	2,377,766	638,197	1,723,366	2,361,563
Mogote	167,924	-	167,924	-	-	-
Poncha	-	-	-	141,192	2,070,677	2,211,869
Jujuy	-	-	-	10,395	2,038,455	2,048,850
Pescado	30,021	841,007	871,028	30,021	840,915	870,936
Neuquen	2,139	190,392	192,531	2,139	183,411	185,550
Purulla	117,981	6,302	124,283	-	-	-
Other	48,348	241,617	289,965	32,537	225,130	257,667
	1,011,168	3,012,329	4,023,497	854,481	7,081,954	7,936,435
Peru						
Rio Tabaconas	1,310,867	3,517,528	4,828,395	1,310,867	3,079,940	4,390,807
Cocha	30,843	-	30,843	-	-	-
Mitu	15,513	-	15,513	-	-	-
Others	23,260	-	23,260	-	-	-
	1,380,483	3,517,528	4,898,011	1,310,867	3,079,940	4,390,807
	2,391,651	6,529,857	8,921,508	2,165,348	10,161,894	12,327,242

(a) Valle de Cura Properties, Argentina

The Company owns a 100% interest in the Valle de Cura properties for which it paid consideration of US \$120,000.

The properties are subject to a net smelter return royalty ("NSR") of up to US \$5,000,000 once commercial production is achieved.

(b) Poncha Property, Argentina

Effective March 30, 2007, the Company entered into an option agreement with Teck Resources Limited through its subsidiary Teck Cominco Argentina Ltd. ("Teck Resources") to earn an undivided 100% interest in Teck Resources' 100% option for the Poncha gold-copper project located in San Juan Province, Argentina.

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

The agreement was amended in March 2009. The amended agreement requires the Company to undertake work expenditures on the property totaling US\$3,200,000 and make payments totaling US\$3,098,000 to the underlying property owner over three years as follows:

Exploration Expenditures US \$	Amended Option Payments US \$	Date
650,000	-	April 1, 2008 (incurred)
-	125,000	May 10, 2008 (Paid)
1,000,000	-	April 1, 2009 (incurred)
-	78,000	May 10, 2009 (Paid)
1,550,000	-	April 1, 2010
-	78,000	May 10, 2010
-	78,000	May 10, 2011
-	78,000	May 10, 2012
-	78,000	May 10, 2013
-	78,000	May 10, 2014
-	78,000	May 10, 2015
-	78,000	May 10, 2016
-	2,349,000	May 10, 2017*
<u>3,200,000</u>	<u>3,098,000</u>	

*\*The Company will pay \$750,000 USD on first publication of any 43-101 compliant resource greater than 500,000 oz gold and \$1,521,000 USD will be paid on publication of a bankable feasibility study. The property owners have the right to terminate the agreement if the aforementioned payments have not been made before May 10, 2017.*

The underlying owner will retain a 1% NSR royalty in the property. Teck Resources has an option to re-acquire up to a 65% interest in the Poncha Property through a “Back-In” right and an “Additional Earn-In” right. In order to exercise its initial Back-In right to acquire a 55% interest, Teck Resources is required to fund expenditures equal to twice the Company’s expenditures (to a maximum of US\$6,400,000). To increase its interest to 65% Teck Resources would need to spend a further US\$10,000,000. The Agreement provides that under certain conditions Teck Resources may contribute to a percentage of the payments to the underlying property owner. Also, Teck Resources reserves a 1% NSR royalty if it chooses not to exercise its back-in right.

The option agreement was terminated on February 1, 2010. Accordingly, the Company wrote off \$231,609 of acquisition costs capitalized to the property to date.

(c) **Mogote Property, Argentina**

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

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

(d) 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. Under the terms of the option agreement, the Company has paid US \$185,000 and is 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. In 2006, the Company renegotiated the option agreement on Rio Tabaconas project and starting July 2006 commenced paying US\$3,000 per month to the optionor. The force majeure is still in effect as at December 31, 2009.

(e) Cocha, Mitu and Other Properties, Peru

On June 3, 2009 the Company announced that it had entered into an agreement to acquire from Panthera four Peruvian property concessions, including Cocha, Mitu, Acero and Fuyani, and the remaining 51% interest in the Mogote property not already held by the Company for consideration of \$168,870 CDN (\$150,000 USD) and a 1% NSR. The amount allocated for the four Peruvian mineral properties to acquisition costs were \$6,291, 1,681, \$715 and \$420, respectively. Also, included in acquisition costs are the 2008 validity fees totalling \$47,720.

(f) La Morena Gold Project, Colombia

On March 2, 2009, the Company entered into an option agreement with an initial payment of US\$80,000 for the La Morena Gold Project. The project is located in Quindio Department, Colombia. To earn a 100% interest, the Company will make cash payments totalling US\$1,955,000 over the next five years (paid \$80,000).

On November 4, 2009 the Company terminated this option agreement. Accordingly, the Company wrote off \$99,626 of acquisition costs capitalized to the property to date.

(g) Purulla, Argentina

On October 20, 2009 the Company entered into an option agreement with a private Argentinean claim owner 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 totalling USD \$1,025,000 over the next three years to acquire 100% of the properties as follows:

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

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**8. SHARE CAPITAL**

Authorized: unlimited common shares without par value

Issued:	December 31, 2009		December 31, 2008	
	Shares	Amount \$	Shares	Amount \$
Balance, beginning of year	15,468,655	9,144,655	15,258,655	8,936,344
Issued during the year for:				
Private placements	19,358,000	4,320,600	-	-
Warrant valuation	-	(1,118,784)	-	-
Share issue costs	-	(212,918)	-	-
Exercise of warrants	75,000	18,750	210,000	168,000
Reallocation of warrant equity on the exercise of warrants	-	3,305	-	40,311
Balance, end of year	34,901,655	12,155,608	15,468,655	9,144,655

- (a) During the period ended December 31, 2009 the Company completed:
- i) a non-brokered private placement financing of 5,189,000 units at a price of \$0.15 per unit, for net proceeds of \$741,104, net of related share issue costs of \$38,682. Each unit consisted of one common share and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share, exercisable at a price of \$0.25 expiring January 9, 2011. The fair value assigned to the warrants was \$228,661. The warrants were valued using the Black-Scholes Pricing Model at \$0.04 per warrant on the following assumptions: dividend yield 0%, risk-free rate 1.44%, expected volatility 98% and expected life of 1.22 years.
  - ii) a non-brokered private placement financing of 9,054,000 units at a price of \$0.25 per unit, for net proceeds of \$2,094,831 net of related share issue costs of \$167,234. Each unit consisted of one common share and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share, exercisable at a price of \$0.40 expiring October 17, 2010. The fair value assigned to the warrants was \$491,785. The warrants were valued using the Black-Scholes Pricing Model at \$0.07 per warrant on the following assumptions: dividend yield 0%, risk-free rate 1.04%, expected volatility 100% and expected life of 1.08 years.
  - iii) a non-brokered private placement financing of 5,115,000 units at a price of \$0.25 per unit for net proceeds of \$1,199,450, net of related share issue costs of \$79,300. Each unit consisted of one common share and one common share purchase warrant. Each warrant will entitle the holder to purchase one common share, exercisable at a price of \$0.40 expiring January 30, 2011. The fair value assigned to the warrants was \$398,338. The warrants were valued using the Black-Scholes Pricing Model at \$0.08 per warrant on the following assumptions: dividend yield 0%, risk-free rate 1.35%, expected volatility 119% and expected life of 1.30 years.
  - iv) 75,000 warrants were exercised for proceeds of \$18,750.
- (b) During the year ended December 31, 2008 210,000 warrants were exercised for proceeds of \$168,000.

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**8. SHARE CAPITAL** (continued)

(c) Stock options and stock-based compensation

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 stock options granted vest immediately and are subject to a four month hold period and exercisable for a period of five years. 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.

During the year ended December 31, 2009, the Company granted stock options to directors, employees and consultants to acquire 1,650,000 (2009 – 45,000) common shares of the Company and recorded compensation expense of \$265,298 (September 30, 2008 - \$11,752) with a corresponding increase in contributed surplus as a result. The fair value of stock options granted is estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions used for the grant made during the period:

For the Year Ended December 31,	2009	2008
Risk-free interest rate	0.87%	3.45%
Estimated volatility	85%	74%
Expected life	3 years	3.2 years
Expected dividend yield	0%	0%

The weighted average fair value of the stock options granted during the year, calculated using the Black-Scholes Option Pricing Model, was \$0.16 (2008 - \$0.26) per share. Option-pricing models require the use of estimates and assumptions including the expected volatility. Changes in the underlying assumptions can materially affect the fair value estimates and, therefore, existing models do not necessarily provide reliable measure of the fair value of the Company's stock options.

A summary of the changes in the Company's outstanding stock options for the years ended December 31, 2009 and 2008 is presented below:

	2009		2008	
	Options Outstanding and Exercisable	Weighted Average Exercise Price \$	Options Outstanding and Exercisable	Weighted Average Exercise Price \$
Balance, Beginning of year	1,293,900	0.87	1,478,900	0.86
Granted	1,650,000	0.35	45,000	0.50
Cancelled / Forfeited	(20,000)	1.00	(230,000)	0.76
Balance, end of year	2,923,900	0.58	1,293,900	0.87

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**8. SHARE CAPITAL** (continued)

Stock options outstanding and exercisable at December 31, 2009, are as follows:

Number	Exercise Price \$	Expiry Date
610,900	0.75	September 23, 2010
75,000	0.80	March 15, 2012
588,000	1.00	September 12, 2012
<u>1,650,000</u>	0.35	October 17, 2010
<u><u>2,923,900</u></u>		

(d) Warrants

A summary of the number of common shares reserved pursuant to the Company's outstanding warrants and agents warrants outstanding at December 31, 2009 and 2008 and the changes for the years ending on those dates is as follows:

	Number	\$
Balance, December 31, 2007	4,203,600	835,439
Warrants exercised	<u>(210,000)</u>	<u>(40,311)</u>
Balance, December 31, 2008	3,993,600	795,128
Warrants issued	19,358,000	1,118,784
Warrant issue costs	-	(72,297)
Warrant expired	(3,993,600)	(795,128)
Warrants exercised	<u>(75,000)</u>	<u>(3,305)</u>
Balance, December 31, 2009	<u><u>19,283,000</u></u>	<u><u>1,043,182</u></u>

Common shares reserved pursuant to warrants outstanding at December 31, 2009 are as follows:

Number	Exercise Price \$	Expiry Date
5,114,000	0.25	January 9 , 2011
9,054,000	0.40	October 17 , 2010
<u>5,115,000</u>	0.40	January 30 , 2011
<u><u>19,283,000</u></u>		

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**9. CONTRIBUTED SURPLUS**

A continuity summary of contributed surplus is presented below:

	\$
Balance, December 31, 2007 *	12,498,644
Contributed surplus as a result of stock options granted	11,752
Balance, December 31, 2008	12,510,396
Contributed surplus as a result of stock options granted	265,298
Contributed surplus as a result of expiry of warrants	795,128
Capital tax on expired warrants	(119,269)
Balance, December 31, 2009	13,451,553

\*The contributed surplus balance includes amounts paid by the predecessor company ("Kobex") to finance its business up to July 7, 2004, when it completed a corporate restructuring plan and transferred certain assets and liabilities to the Company. At December 31, 2008 and 2007, contributed surplus includes \$11,772,788 relating to activities of Kobex.

**10. RELATED PARTY TRANSACTIONS**

- a) The Company engages Grosso Group Management Ltd. ("Grosso Group") to provide services and facilities to the Company. The Grosso Group is a private company owned by the Company, Kobex Minerals Inc. ("Kobex") (formerly IMA Exploration Inc.) and Blue Sky Uranium Corp. ("Blue Sky"), each of which owns one share. The Grosso Group provides its shareholder companies with geological, corporate development, administrative and management services, office and sundry and rent, parking and storage. The shareholder companies pay monthly fees based upon a pro-rating of the Grosso Group's costs including its staff and overhead costs among each shareholder company with regard to the mutually agreed average annual level of services provided to each shareholder company. The Grosso Group services contract also provides that, in the event the services are terminated by a member company, a termination payment would include three months of compensation and any contractual obligations that the Grosso Group undertook for the company, up to a maximum of \$500,000.

On November 30, 2009 Kobex terminated its services agreement with the Grosso Group. Upon termination Kobex paid a severance of \$500,000 to the Grosso Group. The Grosso Group allocated an expense recovery of \$255,000 to the Company which is included in accounts receivable.

During fiscal 2009, the Company incurred fees of \$664,357 (2008 - \$508,384): a total of \$687,171 (2008 - \$524,418) was paid in monthly payments and \$22,814 is included in accounts receivable as a result of a review of the allocation of the Grosso Group costs to the member companies for the year (2008 - \$16,034). In addition, included in deposits is an \$85,000 (2008 - \$85,000) deposit to the Grosso Group for the purchase of equipment and leasehold improvements and for operating working capital.

- b) Effective May 1, 2007, the Company entered into an agreement with Kobex to pay a monthly fee for the services provided by Kobex's Chief Executive Officer who is also the Chief Executive Officer of the Company. The agreement may be terminated at any time by the Company upon 30 days written notice. For fiscal 2009, the Company paid \$24,000 (2008 - \$36,000) to Kobex for the services. This agreement was terminated on September 1, 2009.

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

- c) Effective December 1, 2009 the Company entered into an agreement with a director of the Company to pay a monthly salary of \$7,000. The Company also agreed to issue 650,000 common shares of the Company to this director. During the year the Company paid or accrued consulting fees of \$252,113 (2008 - \$Nil) to this director, of which \$214,500 relates to the 650,000 common shares that were issued subsequent to year end.

In the event the contract is terminated by the Company or as a result of a change of control, a payment is payable to this director consisting of any monthly compensation due to the date of termination and \$400,000 of compensation.

- d) Effective October 1, 2009 the Company entered into a consulting agreement with a director of the Company to pay \$100 per hour. During the year the Company paid or accrued consulting fees of \$9,375 to this director.

In the event the contract is terminated by the Company or as a result of a change of control, a payment is payable to this director consisting of any monthly compensation due to the date of termination and 24 months of compensation, which would be based on the average fees of the preceding three months.

- e) The Company and Blue Sky share office space and costs in Mendoza, Argentina. As at December 31, 2009 included in accounts receivable is \$103,867 from Blue Sky related to the shared office space.

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.

**11. 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:

	2009	2008
Statutory tax rate	30.00%	31.00%
	\$	\$
Loss before income taxes	<u>(2,501,406)</u>	<u>(4,824,149)</u>
Provision for (recovery of) income taxes based on statutory		
Canadian combined federal and provincial income tax rates	(750,422)	(1,495,486)
Non-deductible differences and others	428,464	19,146
Differences in foreign tax rates	(16,269)	(79,749)
Change in Canadian tax rates	151,366	(65,887)
Change in valuation allowance	136,736	1,709,497
Other	<u>(69,144)</u>	<u>(87,521)</u>
	<u>(119,269)</u>	<u>-</u>

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**11. INCOME TAXES** (continued)

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 and liabilities are as follows:

	2009 \$	2008 \$
Future income tax assets		
Financing costs	98,312	72,048
Operating loss carryforwards	1,622,559	1,462,771
Resource deductions	2,014,560	2,009,755
Other	<u>116,513</u>	<u>170,635</u>
	3,851,944	3,715,209
Valuation allowance for future income tax assets	<u>(3,851,944)</u>	<u>(3,715,209)</u>
	<u>-</u>	<u>-</u>

The Company has Canadian non-capital loss carryforwards of \$3,936,516 that may be available for tax purposes. The Company's non-capital losses expire as follows:

Expiry Date	\$
2010	358
2014	159,771
2015	226,067
2026	133,320
2027	806,506
2028	1,396,186
2029	<u>1,214,308</u>
	<u>3,936,516</u>

At December 31, 2009, the Company had a net operating loss carryforward for Peru income tax purposes of approximately Cdn\$361,638 (2008 – Cdn\$987,085) which, if not utilized to reduce Peru 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 Peru subsidiary.

At December 31, 2009, the Company had a net operating loss carryforward for Argentina income tax purposes of approximately Cdn\$958,986 (2008 – Cdn\$1,232,085) 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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**12. SEGMENTED INFORMATION**

The Company is involved in mineral exploration and development activities, which are conducted principally in Argentina, Colombia 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:

	<b>December 31, 2009</b>				<b>Total</b>
	<b>Corporate Canada</b>	<b>Mineral Operations Argentina</b>	<b>Mineral Operations Peru</b>	<b>Mineral Operations Colombia</b>	
	\$	\$	\$	\$	\$
Current assets	1,998,775	814,127	38,996	20,428	2,872,326
Deposit	85,000	-	-	-	85,000
Mineral property interests	-	1,011,168	1,380,483	-	2,391,651
	<u>2,083,775</u>	<u>1,825,295</u>	<u>1,419,479</u>	<u>20,428</u>	<u>5,348,977</u>

	<b>December 31, 2008</b>				<b>Total</b>
	<b>Corporate Canada</b>	<b>Mineral Operations Argentina</b>	<b>Mineral Operations Peru</b>	<b>Mineral Operations Colombia</b>	
	\$	\$	\$	\$	\$
Current assets	1,007,116	44,984	22,975	114,529	1,189,604
Deposit	85,000	-	-	-	85,000
Long-term investment	186,392	-	-	-	186,392
Mineral property interests	-	854,481	1,310,867	-	2,165,348
	<u>1,278,508</u>	<u>899,465</u>	<u>1,333,842</u>	<u>114,529</u>	<u>3,626,344</u>

**13. CAPITAL RISK MANAGEMENT**

The Company defines capital as the items included in shareholders' equity. The Company's objectives in managing capital are to safeguard its ability to continue as a going concern and to provide returns for shareholders and benefits for other stakeholders. To meet this objective the Company will ensure it has sufficient cash resources to pursue the acquisition, exploration and development of mineral properties and fund potential acquisitions.

To support these objectives, the Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents. In order to maximize the exploration and development efforts, the Company does not pay out dividends.

The Company is not subject to any externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2009.

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**14. MANAGEMENT OF FINANCIAL RISK**

The Company's financial instruments are exposed to certain risks, including currency, credit and metal price risk.

*Currency Risk:* Business is transacted by the Company in a number of currencies. Fluctuations in exchange rates may have a significant effect on the cash flows of the Company. Future changes in exchange rates could materially affect the Company's results in either a positive or negative direction.

The Company has not hedged its exposure to currency fluctuations. As at December 31, 2009, the Company is exposed to currency risk through the following assets and liabilities in US dollars, Peruvian pesos, Argentina pesos and Colombian pesos:

	December 31, 2009			
	US Dollar \$	Argentina Pesos \$	Peru Soles \$	Colombia Pesos \$
Cash	161,476	680,859	63,572	39,578,295
Amounts receivable and prepaids	517,963	327,774	44,063	396,798
Accounts payable and accrued liabilities	(32,454)	(61,288)	(18,561)	(606,500)
	646,985	947,345	89,074	39,368,593
Foreign exchange rate at December 31, 2009	1.0510	0.2713	0.3623	0.000511

Based on the net exposures as at December 31, 2009, and assuming that all other variables remain constant, a 10% depreciation or appreciation of the Canadian dollar against the US dollar, Argentinean peso, Peruvian sole and Colombian peso would have an impact of approximately \$99,000 on the Company's net earnings.

*Credit Risk:* Credit risk is the risk of an unexpected loss of a third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash, short-term investments and amounts receivable. The Company limits its exposure to credit loss by placing its cash and short-term investments with major financial institutions.

*Liquidity Risk:* Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they are due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company raises capital through equity issues and its ability to do so is dependent on a number of factors including market acceptance, stock price and exploration results. The Company's cash is primarily invested in bank accounts and Government Investment Certificates (GIC's) which are cashable on demand. The Company expects that its cash on hand at December 31, 2009 provides the sufficient financial resources to carry out its operations through the 2010 financial year and also allow the Company to pursue acquisition opportunities.

*Interest Risk:* The Company's bank accounts earn interest income at variable rates. The fair value of its short-term investments is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to short-term rates.

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**14. MANAGEMENT OF FINANCIAL RISK (continued)**

**Fair Values**

The carrying values of cash, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate fair values due to their short terms to maturity or ability to readily convert to cash.

The following table outlines the Corporation'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, 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

**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).

The Corporation's cash instruments are valued using quoted market prices in active markets, and therefore are classified as Level 1.

**15. SUBSEQUENT EVENTS**

- i) On January 7, 2010 the Company completed a non-brokered private placement financing of 680,000 shares at a price of \$0.33 per share, for gross proceeds to the Company of \$224,400.
- ii) 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 3,490,165 common shares and 1,928,300 warrants of Golden Alliance Resources Corporation, paid \$930,000 and spun-out its Peruvian and Colombian mineral property interests with a carrying value of \$1,410,483. The shares and warrants were distributed to the Company's shareholders and warrant holders.
- iii) On February 1, 2010 the Company terminated its option agreement for Poncha.
- iv) On March 31, 2010, the Company granted 100,000 stock options to consultant at an exercise price of \$0.36 expiring March 31, 2015.
- v) On April 22, 2010, the Company granted 150,000 stock options to consultants at an exercise price of \$0.36 expiring April 22, 2015.