

# **Cedar Mountain Exploration Inc.**

Consolidated Financial Statements  
For the years ended September 30, 2010 and 2009



STOUT & COMPANY LLP

CHARTERED ACCOUNTANTS EDMONTON, CANADA

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## AUDITORS' REPORT

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To the Shareholders of **Cedar Mountain Exploration Inc.**

We have audited the consolidated balance sheets of **Cedar Mountain Exploration Inc.** as at September 30, 2010 and 2009 and the consolidated statements of net loss, comprehensive loss and deficit and cash flows 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada  
January 19, 2011

Chartered Accountants

# Cedar Mountain Exploration Inc.

## Consolidated Balance Sheets

As at September 30, 2010 and 2009

	2010	2009
	\$	\$
<b>Assets</b>		
<b>Current</b>		
Cash	733,200	140,782
Goods and services tax receivable	16,300	14,675
Mineral exploration tax credit receivable	36,437	136,313
Prepaid expenses and deposits	21,900	21,900
Debenture (note 9)	-	300,000
	<b>807,837</b>	613,670
<b>Equipment (note 3)</b>	<b>58,344</b>	-
<b>Mineral properties (note 4)</b>	<b>1,073,872</b>	764,398
	<b>1,940,053</b>	1,378,068
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	249,831	214,254
Advance share subscriptions received (note 6)	-	92,000
	<b>249,831</b>	306,254
<b>Shareholders' equity</b>		
Share capital (note 6)	4,307,979	2,503,819
Contributed surplus (note 7)	735,640	474,350
Deficit	(3,353,397)	(1,906,355)
	<b>1,690,222</b>	1,071,814
	<b>1,940,053</b>	1,378,068

Approved on behalf of the Board

Signed: "John Williamson" Director

Signed: "Sean Mager" Director

See accompanying notes to the consolidated financial statements

# Cedar Mountain Exploration Inc.

## Consolidated Statements of Net Loss, Comprehensive Loss, and Deficit For the years ended September 30, 2010 and 2009

	2010 \$	2009 \$
<b>Expenses</b>		
Management fees and salaries	381,987	208,302
Marketing and investor relations	117,287	58,895
Office and administration	149,250	121,326
Professional fees	58,067	60,256
Project generation	-	24,277
Stock-based compensation	212,300	29,750
	<b>(918,891)</b>	<b>(502,806)</b>
<b>Other income (expenses)</b>		
Interest income	29,915	3,938
Loss on foreign exchange	(1,478)	-
Loss on disposition of mineral property (note 4)	(44,255)	-
Write down of mineral properties (note 4)	(187,100)	-
Provision for debenture (note 9)	(325,233)	-
	<b>(1,447,042)</b>	<b>(498,868)</b>
<b>Net loss from continuing operations</b>	<b>(1,447,042)</b>	<b>(498,868)</b>
<b>Discontinued operations (note 9)</b>	<b>-</b>	<b>(368,413)</b>
<b>Net loss and comprehensive loss for the year</b>	<b>(1,447,042)</b>	<b>(867,281)</b>
<b>Deficit - beginning of year</b>	<b>(1,906,355)</b>	<b>(1,039,074)</b>
<b>Deficit - end of year</b>	<b>(3,353,397)</b>	<b>(1,906,355)</b>
<b>Basic and diluted net loss from continuing operations per common share</b>	<b>(0.05)</b>	<b>(0.03)</b>
<b>Basic and diluted net loss per common share</b>	<b>(0.05)</b>	<b>(0.05)</b>
<b>Weighted average number of common shares outstanding</b>	<b>27,139,159</b>	<b>17,810,273</b>

See accompanying notes to the consolidated financial statements

**Cedar Mountain Exploration Inc.**  
**Consolidated Statements of Cash Flows**  
**For the years ended September 30, 2010 and 2009**

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	2010	2009
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss from continuing operations for the year	(1,447,042)	(498,868)
Items not affecting cash:		
Stock-based compensation	212,300	29,750
Write down of mineral properties	187,100	-
Loss on disposition of mineral property	44,255	-
Provision for debenture	325,233	-
	(678,154)	(469,118)
Change in non cash working capital items	111,577	164,664
Cash used in continuing operations	(566,577)	(304,454)
Cash used in discontinued operations	-	(149,014)
	(566,577)	(453,468)
<b>Investing activities</b>		
Acquisition of mineral properties (notes 4, 9)	(352,223)	(522,194)
Proceeds on disposition of mineral property (note 4)	500,000	-
Expenditures on mineral properties	(688,518)	(18,933)
Purchase of equipment	(61,414)	-
	(602,155)	(541,127)
<b>Financing activities</b>		
Proceeds from issuance of shares	1,828,475	686,500
Share issuance costs	(67,325)	(21,847)
Advance share subscriptions received	-	92,000
	1,761,150	756,653
<b>Increase (decrease) in cash</b>	<b>592,418</b>	<b>(237,942)</b>
<b>Cash - beginning of year</b>	<b>140,782</b>	<b>378,724</b>
<b>Cash - end of year</b>	<b>733,200</b>	<b>140,782</b>

The non-cash transactions described in notes 4 and 6 have been eliminated from the consolidated statements of cash flows.

See accompanying notes to the consolidated financial statements

# **Cedar Mountain Exploration Inc.**

## **Notes to the Consolidated Financial Statements**

### **For the years ended September 30, 2010 and 2009**

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#### **1. Nature of operations**

Cedar Mountain Exploration Inc. (the “Company” or “Cedar”) was incorporated in Alberta and commenced operations on March 16, 2006. On October 18, 2007, the Company closed its initial public offering and began trading on the TSX-V stock exchange under the symbol CED on October 29, 2007.

Cedar is in the business of acquiring and exploring mineral properties. The Company has not yet determined whether these properties contain mineral reserves that are economically recoverable and the Company is presently, or is planning to carry out active exploration efforts on all of its mineral properties. The Company has not yet earned significant revenues and is considered to be in the development stage. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business over the next fiscal year. The Company has had a history of negative cash flows from operations and has an accumulated deficit of \$3,353,397 at September 30, 2010, and expects to incur further losses in the development of its business and its mineral properties. These considerations raise substantial doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from the normal business operations when they become due. The Company cannot provide assurance that it will be successful in doing so.

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was inappropriate.

#### **2. Accounting policies**

##### **Principles of consolidation and preparation of financial statements**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The balance sheet at September 30, 2009 included only the accounts of Cedar Mountain Exploration Inc. due to the disposal of its subsidiaries on August 27, 2009 (note 9). As such, the balance sheet as at September 30, 2009 is not consolidated. The statement of net loss, comprehensive loss, and deficit for the year ended September 30, 2009 included the results of operations of Sterling Mining de Mexico S.A. de C.V. and Evoba Mining de Mexico S. de R.L. de C.V., classified as discontinued operations, prior to their sale (note 9).

The consolidated balance sheet at September 30, 2010 includes the assets and liabilities of the Company’s wholly owned subsidiary Cedar Mountain Exploration (Alaska) Inc. (“Cedar Alaska”) and the consolidated statement of net loss, comprehensive loss and deficit and cash flows for the year ended September 30, 2010 includes the accounts of Cedar Alaska from the date of its incorporation.

# **Cedar Mountain Exploration Inc.**

## **Notes to the Consolidated Financial Statements**

### **For the years ended September 30, 2010 and 2009**

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These financial statements use the Canadian Dollar as the unit of measurement.

#### **Cash**

Cash is comprised of cash on deposit at the Company's financial institutions. Restricted cash has been presented as a non-current asset, separate from cash.

#### **Use of estimates**

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 the assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of management estimates relates to the assessment of impairment of value of mineral properties, the useful life of equipment, the allocation of proceeds between common shares and warrants issued in units, and the fair value of stock based compensation. Actual results could differ from those estimates.

#### **Asset retirement obligation**

The Company recognizes liabilities for retirement obligations associated with long-lived assets, which includes abandonment of mineral properties and returning property to its original condition. The Company recognizes the fair value of the liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value of the liability is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit adjusted risk free interest rate. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of loss and deficit. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized on the same basis as mineral properties and deferred exploration costs.

#### **Equipment**

Equipment is recorded at cost. The Company provides for amortization using the straight line method at rates designed to amortize the cost of individual items over their estimated useful lives.

#### **Foreign currency translation**

The Company applies the temporal method in the translation and consolidation of its integrated foreign subsidiaries. Monetary items are translated into Canadian Dollars at the exchange rate in effect on the balance sheet date. Non-monetary items are translated at historical exchange rates, except where such items are carried at fair value, in which case they are translated at the exchange rate in effect at the balance sheet date. Revenue and expenses are translated in a manner that produces substantially the same reporting currency amounts that would have resulted had the underlying transactions been translated on the dates they occurred. Amortization of assets translated at historical exchange rates is translated at the same exchange rate as the assets to which it relates.

# **Cedar Mountain Exploration Inc.**

## **Notes to the Consolidated Financial Statements**

### **For the years ended September 30, 2010 and 2009**

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Where foreign currency-denominated balance sheet items or commitments are disclosed, the Canadian Dollar equivalent amount is presented, at the rate in effect at the related balance sheet date, unless otherwise indicated.

#### **Flow-through shares**

The proceeds of flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada) (“Act”) are included in share capital. The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly these expenditures provide no income tax deduction to the Company.

Share capital is reduced and a future tax liability is recorded equal to the amount of future income taxes payable by the Company when the Company files the renouncement documents with the tax authorities to renounce the tax credits associated with the expenditures. Where at the time of renouncement the Company has unrecorded net tax assets exceeding the income tax effect of the deduction renounced, the corresponding future tax asset will be recognized. The amount of the future income tax assets recognized is limited to the amount that is more likely than not to be realized.

#### **Impairment of long-lived assets**

In the event that facts and circumstances indicate that the carrying value of long-lived assets may be impaired, the Company performs a recoverability evaluation. If the evaluation indicates that the carrying value of the asset is not recoverable from undiscounted cash flows attributable to the asset, then an impairment loss is measured by comparing the carrying amount of the asset to its fair value. The amount of the impairment is charged to income in the period when the impairment is determined.

#### **Income taxes**

The liability method is used for determining income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated tax recoverable or payable that would arise if assets and liabilities were recovered or settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the year in which temporary differences are expected to be recovered or settled. Changes to these balances, including changes due to changes in income tax rates, are recognized in income in the period in which they occur. The amount of future tax assets recognized is limited to the amount that is more likely than not to be realized.

#### **Mineral exploration tax credits**

Federal, provincial and territorial taxation authorities provide companies with tax incentives for undertaking mineral exploration directives in certain areas. Mineral exploration tax credits on eligible mineral exploration expenditures incurred in those areas are treated as a reduction of the deferred exploration costs of the respective mineral properties.

#### **Mineral properties**

Mineral property acquisition costs and exploration costs directly related to specific properties are deferred until the properties are brought into production, sold or abandoned. All other costs, including administrative

# **Cedar Mountain Exploration Inc.**

## **Notes to the Consolidated Financial Statements**

### **For the years ended September 30, 2010 and 2009**

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overhead are expensed as incurred. If the properties are put into commercial production, the acquisition and exploration expenditures will be depleted using the units of production basis based upon the proven reserves available. If the properties are sold or abandoned, these expenditures will be written off.

Where the Company receives payments under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the property to the extent of costs incurred, with any excess, included in net income.

Revenues incidental to the Company's capitalized mineral properties are recorded as a reduction to the mineral property balance.

Mineral properties are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Where there is evidence of impairment, the net carrying amount of the asset will be written down to its fair value. Impairment losses are not reversed even if circumstances change and the net recoverable amount subsequently increases.

The amounts shown as mineral properties represent unamortized costs to date and do not necessarily reflect present or future values.

#### **Net loss per share**

Net loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if stock options or warrants to purchase common shares were exercised and converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or warrants that are in the money are assumed to be used to purchase common shares of the Company at the average market price during the year. When the Company is in a net loss position, this calculation is anti-dilutive.

#### **Stock-based compensation**

Stock-based compensation is accounted for using the fair value method whereby compensation expense related to these programs is recorded in the consolidated statement of net loss, comprehensive loss and deficit with a corresponding increase to contributed surplus. The fair value of options granted is determined at the date of grant and expensed over the vesting period. The fair value of warrants or options issued to agents is recorded as share issue costs with a corresponding increase to contributed surplus.

Consideration paid on the exercise of stock options, agent options, and warrants is credited to share capital. Upon the exercise of the stock options and warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options and agents options that may not vest, but accounts for forfeitures as they occur.

# Cedar Mountain Exploration Inc.

## Notes to the Consolidated Financial Statements

### For the years ended September 30, 2010 and 2009

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#### New accounting policies

The following new accounting policy has been adopted by the Company effective October 1, 2009:

#### *Financial instruments*

On October 1, 2009, the Company adopted the amended Canadian Institute of Chartered Accountants' Handbook Section 3862, amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The additional fair value measurements disclosures include classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

- Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

As the Company is not party to any financial instruments requiring fair value measurements, the adoption of the amended CICA Handbook Section 3862 had no effect on the disclosures in the consolidated financial statements.

#### Future accounting pronouncements

#### *International Financial Reporting Standards*

In February 2008, the Accounting Standards Board confirmed that Canadian Generally Accepted Accounting Principles for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective for the Company's interim and annual financial statements beginning on October 1, 2011. The Company is currently evaluating the impact of the adoption of IFRS.

### 3. Equipment

As at September 30, 2010	Cost	Accumulated amortization	Net book value
Field equipment	\$ 61,414	\$ 3,070	\$ 58,344

The company has estimated that the equipment has a useful life of 5 years and will have no residual value at the end of its useful life. The Company did not own any field equipment during the year ended September 30, 2009. During the year ended September 30, 2010, amortization of \$3,070 (2009 – nil) was capitalized to the Kelly Creek mineral property.

**Cedar Mountain Exploration Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2010 and 2009**

**4. Mineral properties**

	Canada	U.S.A.	Mexico	
	BC Properties	Alaskan Properties	Zacatecas Properties	Total
	\$	\$	\$	\$
<b>Balance – September 30, 2008</b>	794,148	-	-	794,148
Acquisition	-	-	503,428	503,428
Claims and land use	2,631	-	67,465	70,096
Geological consulting	12,382	-	44,646	57,028
Analysis	3,282	-	2,848	6,130
Fieldwork	638	-	-	638
Mineral tax credits	(48,683)	-	-	(48,683)
Disposition of mineral property (note 9)	-	-	(618,387)	(618,387)
<b>Balance – September 30, 2009</b>	764,398	-	-	764,398
Acquisition	-	352,223	-	352,223
Analysis	1,491	-	-	1,491
Geological consulting	7,565	59,194	-	66,759
Fieldwork	883	622,455	-	623,338
Mineral tax credits	(2,982)	-	-	(2,982)
Write down of mineral property	(187,100)	-	-	(187,100)
Disposition of mineral property	(544,255)	-	-	(544,255)
<b>Balance – September 30, 2010</b>	40,000	1,033,872	-	1,073,872
Acquisition	121,845	352,223	-	474,068
Exploration	27,855	681,649	-	709,504
Mineral tax credits	(10,845)	-	-	(10,845)
Write down of mineral property	(98,855)	-	-	(98,855)
<b>Balance – September 30, 2010</b>	40,000	1,033,872	-	1,073,872

*Kelly Creek Project, Alaska, United States of America*

On February 15, 2010, the Company entered into an agreement (“Kelly Creek Agreement”) with an arm’s length party (the “Vendor”) to lease, with an option to purchase, a gold exploration project (“Kelly Creek Project”) located in the State of Alaska in the United States of America (“USA”).

Under the terms of the Kelly Creek Agreement, Cedar may lease the Kelly Creek Project (the “Lease”) from the Vendor by paying aggregate lease payments of USD 1.5 Million (of which USD 50,000 was paid upon entering the Kelly Creek Agreement) and incurring USD 2.15 Million in exploration (“Work Commitments”) over six years. Cedar has the option (the “Option”) to purchase 100% of the project at any time during the term of the lease for USD 1.5 Million (the “Purchase Price”), with any lease payments paid prior to exercise of the Option being deducted from the Purchase Price. If Cedar exercises the Option, it will not be required to complete the Work Commitments. The Kelly Creek Agreement also requires Cedar, during the term of the Lease, to maintain the Kelly Creek Project in good standing. The Kelly Creek Agreement may be terminated at any time by Cedar.

# **Cedar Mountain Exploration Inc.**

## **Notes to the Consolidated Financial Statements**

### **For the years ended September 30, 2010 and 2009**

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Provided Cedar exercises the Option, the Vendor would retain a production royalty equal to 5% of the net smelter returns (“NSR”) and, if commercial production has not yet commenced, Cedar must make advance royalty payments to the Vendor as follows: USD 100,000 upon exercise of the Option; USD 100,000 on the first anniversary of the exercise of the Option; and USD 200,000 on or before each subsequent anniversary of the exercise of the Option. Upon commencement of commercial production such advance royalty payments shall be recovered by deducting 50% from each NSR payment until the aggregate sum of previously paid advance royalty payments has been deducted. Cedar may purchase up to 3/5 of the NSR at any time by paying the Vendor the sum of USD 2 Million for each 1% of the NSR, whereupon subsequent advance royalty payments, if applicable, shall be adjusted proportionately.

In conjunction with the Kelly Creek Agreement, the Company agreed to pay a finder’s fee (“Finder’s Fee”), subject to regulatory approval, to an arm’s length third party (the “Finder”) for total consideration of USD 70,000 over five years. Provided the Kelly Creek Agreement is not terminated, the Company shall pay to the Finder an aggregate USD 55,000 in cash and USD 15,000 in common shares of the Company. Should Cedar choose to exercise the Option, the full unpaid amount of the Finder’s Fee is payable within 30 days of such exercise. The first payment to the Finder of USD 10,000 was paid during the year ended September 30, 2010.

In April 2010, the Company staked additional State of Alaska claims surrounding the Kelly Creek Project bringing the total claims on the property to 204 covering 13,209 hectares.

During September, 2010, the Company staked additional State of Alaska Claims expanding the Kelly Creek Project area to 32,260 hectares of prospective structure and stratiography contiguous with the historic Kelly Creek prospect.

#### *Cedar Creek Property, British Columbia, Canada*

During the year ended September 30, 2010, the Company sold its 100% interest in the Cedar Creek Property in British Columbia, Canada to an unrelated party for the sum of \$500,000 in cash proceeds. The Cedar Creek Property consisted of two mineral claims totalling 1,453 hectares. The carrying value of the Cedar Creek Property was \$544,255, and the resulting loss on disposition of \$44,255 was recorded as a component of net loss.

#### *Venus property, British Columbia, Canada*

During the year ended September 30, 2010, the Company wrote off the carrying value of the Venus property in the amount of \$88,245, and has allowed the underlying mineral claims to lapse. The Company determined that the Venus Property lacked merit relative to other opportunities.

#### *Lemon Lake Property, British Columbia, Canada*

Subsequent to the year ended September 30, 2010, the Company entered into a letter of intent with two arm’s length individuals to sell the Company’s Lemon Lake mineral property in British Columbia to a newly formed private company in exchange for shares of the private company with a negotiated value of \$40,000. As a result, the Company has determined that this proposed transaction is an indication of the fair value of the Lemon Lake Property and has therefore recorded a write-down of the Lemon Lake property to the carrying value of \$40,000. The amount of the write down was \$98,855 and was recorded as a component of net loss.

**Cedar Mountain Exploration Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2010 and 2009**

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*Zacatecas Properties, Zacatecas State, Mexico*

During the year ended September 30, 2009, the Company acquired, and subsequently sold, several projects in Zacatecas State, Mexico, as described in note 9 to the consolidated financial statements.

**5. Income taxes**

The income tax provision differs from the amount computed by applying the statutory rates to pre-tax loss as a result of the following:

	<u>2010</u>	<u>2009</u>
	\$	\$
Expected tax recovery at a rate of 28.88% (2009 – 29.70%)	<b>417,867</b>	148,164
Increase (decrease) resulting from:		
Effect of tax rate changes	<b>(85,637)</b>	35,695
Non-deductible expenses	<b>(62,042)</b>	(9,770)
Sale of mineral property	<b>94,447</b>	-
Change in temporary differences	<b>(65,026)</b>	-
Change in valuation allowance	<b>(299,609)</b>	(174,089)
	<hr/>	<hr/>
Income tax benefit (expense)	-	-

The future income tax asset is comprised of the following tax affected temporary differences:

	<u>2010</u>	<u>2009</u>
	\$	\$
Mineral properties	<b>109,856</b>	8,030
Non-capital losses carried forward	<b>452,652</b>	297,088
Equipment	<b>768</b>	-
Capital loss carried forward	<b>81,004</b>	43,504
Share issuance and incorporation costs	<b>55,650</b>	51,699
Valuation allowance	<b>(699,930)</b>	(400,321)
	<hr/>	<hr/>
Net recognized future income tax asset	-	-

**Cedar Mountain Exploration Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the years ended September 30, 2010 and 2009**

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The Company has Canadian non-capital losses of \$1,810,608 for income tax purposes, the benefit of which have not been recognized, which expire as follows:

<u>Year of origin</u>	<u>Non-capital loss</u>	<u>Year of expiry</u>
	\$	
2006	17,461	2025
2007	166,137	2026
2008	7,126	2027
2008	429,488	2028
2009	568,141	2029
2010	622,255	2030
	<u>1,810,608</u>	

The Company has accumulated capital losses of \$648,031 which can be carried forward indefinitely to offset future capital gains.

**6. Share capital**

Authorized:

Unlimited number of common shares

<b>For the year ended September 30</b>	<b>2010</b>		<b>2009</b>	
Issued:	<b>Common Shares</b>	<b>Amount</b>	<b>Common Shares</b>	<b>Amount</b>
	#	\$	#	\$
Balance – beginning of year	<b>18,568,424</b>	<b>2,503,819</b>	13,985,088	1,839,166
Shares issued in private placements	<b>13,686,500</b>	<b>1,702,975</b>	4,576,669	686,500
Shares issued as finders' fees	<b>248,300</b>	<b>37,245</b>	6,667	1,000
Shares issued on warrant exercise	<b>1,450,000</b>	<b>217,500</b>	-	-
Share issuance costs	-	<b>(153,560)</b>	-	(22,847)
Balance – end of year	<b>33,953,224</b>	<b>4,307,979</b>	18,568,424	2,503,819

On July 9, 2010, the Company completed a non-brokered private placement (“July Offering”) of 6,686,500 units (“Units”) of the Company at a price of \$0.15 per Unit for gross proceeds of \$1,002,975. Each Unit consisted of one common share of the Company (“Common Share”) and one Common Share purchase warrant (“Warrant”) entitling the holder to acquire one additional Common Share at a price of \$0.20 if exercised within 12 months of issuance and \$0.30 if exercised after 12 months of issuance. The Warrants will expire on the earlier of: (a) 30 days following the issuance of a news release by the Company that the trading price of the Common Shares on the TSX Venture Exchange is at or greater than \$0.40 per Common Share for 10 consecutive trading days; and (b) July 9, 2012. In connection with the July Offering, the Company paid finders’ fees to registered dealers by the issuance of: (a) an aggregate of 248,300 Common Shares with a deemed value of \$37,245; and (b) non-transferable share purchase options (Agent Options) entitling such registered dealers to acquire 248,300 Common Shares on the same terms as the Warrants. The Company has assigned the full amount of the proceeds to the Common Shares and none to the Warrants.

# Cedar Mountain Exploration Inc.

## Notes to the Consolidated Financial Statements

### For the years ended September 30, 2010 and 2009

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On October 1, 2009, the Company closed a non-brokered private placement of 7,000,000 units (each, a “Unit”) at a price of \$0.10 per Unit for gross proceeds of \$700,000 (the “October Offering”). Each Unit consisted of one common share of the Company (“Common Share”) and one Common Share purchase warrant (“Warrant”). Each Warrant entitles the holder to acquire one Common Share until October 1, 2011 (the “Exercise Period”) at an exercise price of \$0.15 per Common Share within the first 12 months of the Exercise Period, and at a price of \$0.20 per Common Share within the remaining 12 months of the Exercise Period. The Company has assigned the full amount of the proceeds received on the sale of Units to the Common Shares, and none to the Warrants. At September 30, 2009, the Company had received \$92,000 in funds related to the October Offering in advance of closing of the October Offering on October 1, 2009. This amount is included in cash on the balance sheet at September 30, 2009, with a corresponding current liability labelled advance share subscriptions received. Upon closing of the October Offering, this liability, as well as the remainder of the proceeds raised in the offering, was reclassified to share capital. The Company has assigned the full amount of proceeds to the Common Shares, and none to the Warrants.

Agents acting in connection with the Offering received finder’s fees totalling \$30,200 and agent’s options to acquire up to 302,000 Common Shares at a price of \$0.10 per Common Share until October 1, 2011.

On November 6, 2008, the Company announced that it had closed the first tranche of a private placement, originally announced on October 22, 2008, of 2,091,670 units for gross proceeds of \$313,750. Each unit, sold for \$0.15 per unit, consisted of one common share of the Company and one common share purchase warrant (“Warrant”), where each Warrant is exercisable into one common share at a price of \$0.25 per share. Warrants issued in the first tranche of the private placement will expire on November 6, 2009. The Company has assigned the full amount of the proceeds to the Common Shares and none to the Warrants.

On December 19, 2008, the Company announced that it had closed the second and final tranche of the private placement announced on October 22, 2008, of an additional 2,484,999 units for gross proceeds of \$372,750. Agents acting in connection with the private placement received a finders’ fee in the total amount of \$8,925 and 6,667 Units. Warrants issued with the second tranche of the private placement will expire on December 19, 2009. The Company has assigned the full amount of the proceeds to the Common Shares and none to the Warrants.

#### Warrants

The following table summarizes activity related to warrants:

For the year ended September 30	2010		2009	
	Number of warrants #	Weighted average exercise price \$	Number of warrants #	Weighted average exercise price \$
Balance – beginning of year	4,583,336	0.25	-	-
Issued	13,686,500	0.17	4,583,336	0.25
Exercised	(1,450,000)	0.15	-	-
Expired	(4,583,336)	0.25	-	-
Balance – end of year	12,236,500	0.18	4,583,336	0.25

**Cedar Mountain Exploration Inc.**  
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The following table summarizes information about warrants outstanding:

As at September 30			2010			2009			
Number of warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number of warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number of warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life	
#	\$	Years	#	\$	Years	#	\$	Years	
5,550,000	0.15	1.0	2,091,670	0.25	0.35	6,686,500	0.20	1.8	0.50
12,236,500	0.18	1.4	4,583,336	0.25	0.43				

The exercise price of the 5,550,000 warrants outstanding on September 30, 2010, issued on October 1, 2009, increased from \$0.15 to \$0.20 effective October 1, 2010 pursuant to the original terms of these warrants.

Agent options

On July 9, 2010, the Company issued 248,300 agent options as previously described. The estimated fair value of the agents' options, aggregating \$24,830, has been recorded as an increase to contributed surplus and a reduction of share capital. The fair value of the agents' options was estimated using the Black Scholes option pricing model with the following grant date assumptions: a risk-free interest rate of 1.71%; expected hold prior to exercise of 2 years; expected volatility of 157%; and a dividend yield per share of 0%. The exercise price of these agent options exceeded the market price on the date of grant.

On October 1, 2009, the Company issued 302,000 agent options as previously described. The estimated fair value of the agents' options, aggregating \$24,160 has been recorded as an increase to contributed surplus and a reduction of share capital. The fair value of the agents' options was estimated using the Black Scholes option pricing model with the following grant date assumptions: a risk-free interest rate of 1.20%; expected hold prior to exercise of 2 years; expected volatility of 167%; and a dividend yield per share of 0%. The exercise price of these agent options exceeded the market price of the Common Shares on the grant date.

The following table summarizes activity related to agent options:

For the year ended September 30	2010		2009	
	Number of agent options	Weighted average exercise price	Number of agent options	Weighted average exercise price
	#	\$	#	\$
Balance – beginning of year	400,000	0.40	400,000	0.40
Issued	550,300	0.15	-	-
Expired	(400,000)	0.40	-	-
Balance – end of year	550,300	0.15	400,000	0.40

**Cedar Mountain Exploration Inc.**  
**Notes to the Consolidated Financial Statements**  
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The following table summarizes information about agent options outstanding:

As at September 30			2010			2009		
Number of agent options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number of agent options outstanding	Weighted average exercise price	Weighted average remaining contractual life	Number of agent options outstanding	Weighted average exercise price	Weighted average remaining contractual life
#	\$	Years	#	\$	Years	#	\$	Years
302,000	0.10	1.0	400,000	0.40	1.0			
248,300	0.20	1.8	-	-	-			
<b>550,300</b>	<b>0.15</b>	<b>1.4</b>	<b>400,000</b>	<b>0.40</b>	<b>1.0</b>			

Stock options

Pursuant to a stock option plan (the “Plan”) for directors, officers, employees, and consultants, the Company may reserve a maximum of 10% of the issued and outstanding listed common shares; the exercise price to be determined on the date of issuance of the options. The options are non-transferable and will expire, if not exercised, 90 days following the date the optionee ceases to be a director, officer, employee or consultant of the Company for reasons other than death, one year after the death of an optionee or on the fifth anniversary of the date the option was granted.

The following table summarizes activity related to stock options:

	For the year ended September 30		2010		2009	
	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price	Number of stock options	Weighted average exercise price
	#	\$	#	\$	#	\$
Balance – beginning of year	1,855,000	0.32	1,380,000	0.40		
Issued	1,445,000	0.15	575,000	0.15		
Expired	(50,000)	0.40	(100,000)	0.40		
Repriced – old price	(500,000)	0.40	-	-		
Repriced – new price	500,000	0.15	-	-		
Balance – end of year	<b>3,250,000</b>	<b>0.21</b>	<b>1,855,000</b>	<b>0.32</b>		

**Cedar Mountain Exploration Inc.**  
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The following table summarizes information about stock options outstanding:

<b>As at September 30</b>			<b>2010</b>			<b>2009</b>		
<b>Number of stock options outstanding #</b>	<b>Weighted average exercise price \$</b>	<b>Weighted average remaining contractual life Years</b>	<b>Number of stock options outstanding #</b>	<b>Weighted average exercise price \$</b>	<b>Weighted average remaining contractual life Years</b>			
<b>730,000</b>	<b>0.40</b>	<b>2.0</b>	1,280,000	0.40	3.0			
<b>500,000</b>	<b>0.15</b>	<b>2.0</b>	-	-	-			
<b>525,000</b>	<b>0.15</b>	<b>3.3</b>	525,000	0.15	4.3			
<b>50,000</b>	<b>0.12</b>	<b>3.9</b>	50,000	0.12	4.9			
<b>1,445,000</b>	<b>0.15</b>	<b>4.8</b>	-	-	-			
<b>3,250,000</b>	<b>0.21</b>	<b>3.5</b>	1,855,000	0.32	3.5			

*Stock options repriced*

On July 9, 2010, the Company amended the exercise price of 500,000 outstanding stock options held by non-insiders and expiring on October 17, 2012, to \$0.15 per common share. The Company has recorded stock based compensation expense equal to the difference in the estimated fair value of the options in the amount of \$10,000 as calculated using repricing date assumptions under the original exercise price and the new exercise price. The calculated increment in fair value due to the repricing was \$0.02 per option repriced using the following reprice date assumptions: a risk-free interest rate of 1.62%; expected hold prior to exercise of 2.3 years; expected volatility of 133.0%; and a dividend yield per share of 0%. The exercise price of the repriced options exceeded the market price on the date of repricing.

*Stock options issued*

On July 9, 2010, the Company issued stock options pursuant to the Corporation's stock option plan to officers, directors, employees and consultants of the Corporation to acquire an aggregate of 1,445,000 common shares, exercisable at a price of \$0.15 per common share until July 8, 2015, of which stock options to acquire 1,150,000 common shares were issued to directors and/or officers of the Company. The options were issued with an exercise price exceeding the market price of the common shares on the issuance date. The Company has recorded stock based compensation expense in the amount of \$202,300 as calculated using the following grant date assumptions: a risk-free interest rate of 2.54%; expected hold prior to exercise of 5 years; expected volatility of 151.7%; and a dividend yield per share of 0%.

Subsequent to September 30, 2010 the Company issued, under the Plan, 100,000 stock options to a consultant at \$0.25 per common share and 300,000 stock options to three consultants at \$0.30 per common share.

# Cedar Mountain Exploration Inc.

## Notes to the Consolidated Financial Statements

### For the years ended September 30, 2010 and 2009

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#### 7. Contributed surplus

Contributed surplus arises from the recognition of estimated fair value of stock options and agent options as follows:

<b>For the year ended September 30</b>	<b>2010</b>	<b>2009</b>
	\$	\$
Balance – beginning of year	<b>474,350</b>	444,600
Agent options issued	<b>48,990</b>	-
Stock options issued	<b>212,300</b>	29,750
	<hr/>	<hr/>
Balance – end of year	<b>735,640</b>	474,350
	<hr/>	<hr/>

#### 8. Financial instruments

##### Financial instrument classification

Cedar's financial instruments recognized on the balance sheet consist of cash, mineral exploration tax credit receivable, debenture, and accounts payable and accrued liabilities.

Upon initial recognition, Cedar has designated its cash as held for trading, and accordingly it is recognized on the balance sheet at its fair value, and changes in fair value are recognized in net income in the period in which the change arises.

The mineral exploration tax credit receivable and debenture have been classified as loans and receivables, and are measured at amortized cost.

Accounts payable and accrued liabilities have been classified as other liabilities, and are measured at amortized cost.

The estimated fair market values of Cedar's financial instruments approximate their carrying values due to their short-term nature.

Purchases and sales of financial assets will be accounted for using trade-date accounting, and transaction costs on financial instruments other than those classified as held for trading will be recognized in net income in the period in which they occur.

The Company has no unrecognized financial instruments or derivative financial instruments.

##### Capital management

Cedar's capital consists of share capital.

Cedar's objectives in managing its capital are: to maintain corporate and administrative functions necessary to support its operations and corporate functions; to perform mineral exploration activities on its exploration projects; and to seek out and acquire new projects of merit.

# **Cedar Mountain Exploration Inc.**

## **Notes to the Consolidated Financial Statements**

### **For the years ended September 30, 2010 and 2009**

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Cedar manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficits.

There have been no changes in the Company's capital management in the current year.

#### Risk management

Cedar may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of Cedar's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

#### *Interest risk*

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments.

The Company had \$733,200 in cash at September 30, 2010, on which it earns variable rates of interest, and may therefore be subject to a certain amount of risk, though this risk is deemed to be immaterial by management of Cedar.

#### *Credit risk*

Credit risk is the risk of potential loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations. During the year ending September 30, 2010, the Company has recorded a provision against the Debenture and accrued interest thereon (note 9) totalling \$325,233 due to the Company's assessment of the likelihood of collection being low.

Cedar's cash is held with a financial institution in Canada. Cash held with a Canadian financial institution is guaranteed in full by the Crown in Right of Alberta. Cedar's receivables are due from the government of British Columbia for refundable mineral exploration tax credits and from the Government of Canada for goods and services tax receivable. Management does not consider this concentration of credit to pose any substantial risk to the Company.

#### *Foreign currency risk*

Foreign currency risk is the risk that the fair value of, or future cash flows from, Cedar's financial instruments will fluctuate because of changes in foreign exchange rates.

Cedar maintains the majority of its cash reserves in Canadian Dollars. A portion of the Company's funds are held in US Dollars and are therefore subject to fluctuations in foreign exchange rates. Cedar's corporate costs and share capital, as well as Cedar's reporting currency, is denominated in Canadian Dollars.

At September 30, 2010, the Company has certain monetary items denominated in United States Dollars. Based on these net exposures at September 30, 2010, a 10% appreciation or depreciation of the Canadian Dollar against the United States dollar would result in an increase or decrease of \$67,242 in the Company's net loss.

# Cedar Mountain Exploration Inc.

## Notes to the Consolidated Financial Statements

### For the years ended September 30, 2010 and 2009

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#### *Liquidity risk*

Liquidity risk is the risk that Cedar will not meet its financial obligations as they fall due.

At September 30, 2010, Cedar's working capital is \$558,006, and does not have any long-term liabilities. The continuing operations of the Company are dependent upon its ability to obtain adequate financing and to commence profitable operations in the future. Cedar may have to seek additional debt or equity financing, and there can be no assurance that such financing will be available on terms acceptable to Cedar.

#### **9. Significant acquisitions and discontinued operations**

##### *País del Elephante and Jimenez del Tuel, Zacatecas State, Mexico*

On December 22, 2008, the Company announced that it had acquired 99% of the issued and outstanding shares of Sterling Mining de Mexico S.A. de C.V. ("Sterling Mexico"), a Company incorporated in Mexico, from an arm's length party for USD 222,000 (\$265,419) (the "Acquisition"). The following table shows the allocation of the total acquisition cost to the fair value of the assets acquired and liabilities assumed in the Acquisition.

Cash	\$ 265,419
Acquisition costs	<u>5,531</u>
Total purchase price	<u>\$ 270,950</u>
Cash	\$ 122,093
Non-cash working capital	18,766
Mineral properties	<u>130,091</u>
Net assets acquired	<u>\$ 270,950</u>

The mineral properties acquired with Sterling Mexico, comprising approximately 5,400 hectares of mineral rights in the State of Zacatecas in central Mexico, were added to the Company's País del Elephante area of interest.

On August 27, 2009, the Company divested of its interests in its two Mexico subsidiaries, Sterling Mexico and Evoba, including the Company's interest in the Jimenez del Tuel and País del Elephante mineral properties. The shares of Evoba and Sterling Mexico were sold to an unrelated third party, a Canadian private corporation (the "Buyer"), in exchange for a debenture with a face value of \$300,000 bearing simple interest at 10% per annum payable semi-annually (the "Debenture"). Under the terms of the Debenture, the principal amount and unpaid accrued interest was due on August 27, 2010 and, in the event that the Buyer defaulted on payment of the Debenture, the Company had the right to repurchase the Buyer's interest in Evoba and Sterling in exchange for cancellation of the Debenture.

During the year ended September 30, 2010, the Company determined that there was substantial uncertainty related to the collection of the Debenture and accrued interest thereon. Due to this uncertainty, the Company has recorded a provision against the full face value plus accrued interest, totalling \$325,233. The Company has not repurchased the Buyer's interest in Evoba and Sterling.

**Cedar Mountain Exploration Inc.**  
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The results of operations and cash flows for the comparative year on the statements of net loss, comprehensive loss and deficit and the statements of cash flows include the results of operations and cash flows of Evoba and Sterling Mexico as well as the effects of the acquisition of Sterling and the disposal of both Sterling and Evoba, classified as discontinued operations.

A summary of these amounts follows:

<b>For the year ended September 30</b>	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Revenues	-	25
Expenses	-	(30,334)
Loss on sale of discontinued operations	-	(338,104)
Discontinued operations	-	(368,413)
Basic and diluted net loss from discontinued operations per common share	-	(0.02)

The following table shows the major classes of assets and liabilities disposed of during the year ended September 30, 2009:

Cash	\$ 1,204
Mineral properties	618,387
Non-cash working capital	18,513
	<u>\$ 638,104</u>

#### **10. Related party transactions**

During the year ended September 30, 2010, management fees of \$53,075 (2009 - \$112,500) were paid to officers and directors or companies controlled by officers and directors of the Company. Capitalized geological consulting fees of nil (2009 - \$1,753) were paid to a company controlled by a director.

At September 30, 2010, the Company had no outstanding accounts payable to directors and officers or companies controlled by directors and officers (2009 – \$21,093).

These transactions were in the normal course of operations and were measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

#### **11. Comparative figures**

Certain comparative amounts have been reclassified to conform to the current year's presentation.