# Cedar Mountain Exploration Inc.

Consolidated Financial Statements
**For the three months ended December 31, 2010 and 2009**

To the shareholders of Cedar Mountain Exploration Inc.:

The interim consolidated balance sheets of Cedar Mountain Exploration Inc. as at December 31, 2010 and September 30, 2010, and the interim consolidated statements of net loss, comprehensive loss, and deficit and cash flows for the periods then ended have been compiled by management.

No audit or review of this information has been performed by the Company's auditors.

## Cedar Mountain Exploration Inc.

Consolidated Balance Sheets

| As at | *(unaudited)* **December 31, 2010** **$** | *(audited)* September 30, 2010 $ |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | **437,481** | 733,200 |
| Goods and services tax receivable | **6,566** | 16,300 |
| Mineral exploration tax credit receivable | **36,437** | 36,437 |
| Prepaid expenses and deposits | **8,400** | 21,900 |
| | **488,884** | 807,837 |
| **Equipment (note 3)** | **55,273** | 58,344 |
| **Mineral properties (note 4)** | **1,125,852** | 1,073,872 |
| | **1,670,009** | 1,940,053 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **75,863** | 249,831 |
| **Shareholders' equity** | | |
| Share capital (note 5) | **4,329,464** | 4,307,979 |
| Contributed surplus (note 6) | **813,145** | 735,640 |
| Deficit | **(3,548,463)** | (3,353,397) |
| | **1,594,146** | 1,690,222 |
| | **1,670,009** | 1,940,053 |

**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 three months ended December 31, 2010 and 2009 *(unaudited)*

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Expenses** | | |
| Management fees and salaries | **46,920** | 72,920 |
| Marketing and investor relations | **12,613** | 29,116 |
| Office and administration | **52,026** | 27,285 |
| Professional fees | **7,834** | 9,381 |
| Project generation | **-** | 3,991 |
| Stock-based compensation (note 5) | **78,000** | - |
| | **(197,393)** | (142,693) |
| **Other income (expenses)** | | |
| Interest income | **1,475** | 9,280 |
| Gain on foreign exchange | **2,488** | (399) |
| Write down of mineral properties (note 4) | **(1,636)** | - |
| **Net loss and comprehensive loss for the period** | **(195,066)** | (133,812) |
| **Deficit - beginning of period** | **(3,353,397)** | (1,906,355) |
| **Deficit - end of period** | **(3,548,463)** | (2,040,167) |
| **Basic and diluted net loss from continuing operations per common share (note 5)** | **(0.01)** | (0.01) |
| **Weighted average number of common shares outstanding** | **33,963,055** | 18,568,424 |

See accompanying notes to the consolidated financial statements

# Cedar Mountain Exploration Inc.

Consolidated Statements of Cash Flows

For the three months ended December 31, 2010 and 2009 ***(unaudited)***

| | **2010** | 2009 |
|---|---|---|
| | **$** | $ |
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss from continuing operations for the period | **(195,066)** | (133,812) |
| Items not affecting cash: | | |
| Stock-based compensation | **78,000** | - |
| | **(117,066)** | (133,812) |
| Change in non cash working capital items | **(150,734)** | (887) |
| Cash used in operating activities | **(267,800)** | (134,699) |
| **Investing activities** | | |
| Acquisition of mineral properties (note 4) | **(19,400)** | - |
| Expenditures on mineral properties (note 4) | **(29,509)** | (7,751) |
| | **(48,909)** | (7,751) |
| **Financing activities** | | |
| Proceeds from issuance of shares | **20,990** | 700,000 |
| Share issuance costs | **-** | (39,746) |
| Advance share subscriptions received | **-** | (92,000) |
| | **20,990** | 568,254 |
| **Increase (decrease) in cash** | **(295,719)** | 425,804 |
| **Cash - beginning of period** | **733,200** | 140,782 |
| **Cash - end of period** | **437,481** | 566,586 |

See accompanying notes to the consolidated financial statements

**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 financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets should the Company be unable to continue as a going concern.

**2. Principles of consolidation and preparation of financial statements**

The accompanying unaudited interim financial statements have been prepared by the Company following the same accounting policies and methods as those disclosed in the audited financial statements for the year ended September 30, 2010, unless otherwise stated. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in Canada have been omitted. These interim financial statements should be read in conjunction with the September 30, 2010 audited financial statements and the notes thereto. In the opinion of management, all adjustments of a normal and recurring nature that are necessary for a fair presentation of the balance sheet, results of operations, and cash flows of those interim periods have been included.

The consolidated balance sheet at December 31, 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 period ended December 31, 2010 includes the accounts of Cedar Alaska from the date of its incorporation.

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

**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 December 31, 2010 | Cost | Accumulated amortization | Net |
|---|---|---|---|
| Field equipment | $ 61,414 | $ 6,141 | $ 55,273 |

The Company has estimated that its equipment has a useful life of 5 years and will have no residual value at the end of its useful life. During the period ended December 31, 2010, amortization of $3,071 was capitalized to the Kelly Creek Project (note 4).

The Company did not own equipment during the period ended December 31, 2009.

## 4. Mineral properties

| | Canada | U.S.A. | |
|---|---|---|---|
| | BC Properties | Kelly Creek Project | Total |
| **Additions** | $ | $ | $ |
| Balance – September 30, 2009 | 764,398 | - | 764,398 |
| Geological consulting | 14 | - | 14 |
| Fieldwork | 175 | - | 175 |
| Mineral tax credits | (57) | - | (57) |
| Balance – December 31, 2009 | 764,530 | - | 764,530 |
| Acquisition | - | 352,223 | 352,223 |
| Analysis | 1,491 | - | 1,491 |
| Geological consulting | 7,551 | 59,194 | 66,745 |
| Fieldwork | 708 | 622,455 | 623,163 |
| Mineral tax credits | (2,925) | - | (2,925) |
| Write down of mineral property | (187,100) | - | (187,100) |
| Disposition of mineral property | (544,255) | - | (544,255) |
| Balance – September 30, 2010 | 40,000 | 1,033,872 | 1,073,872 |
| Acquisition | - | 18,894 | 18,894 |
| Analysis | 654 | - | 654 |
| Geological consulting | - | 17,776 | 17,776 |
| Fieldwork | 982 | 15,310 | 16,292 |
| Write down of mineral property | (1,636) | - | (1,636) |
| **Balance – December 31, 2010** | **40,000** | **1,085,852** | **1,125,852** |

| | Canada | U.S.A. | |
|---|---|---|---|
| | Lemon Lake Property | Kelly Creek Project | Total |
| **Balances** | $ | $ | $ |
| Acquisition | 121,845 | 370,657 | 492,502 |
| Exploration | 27,855 | 715,195 | 743,050 |
| Mineral tax credits | (10,845) | - | (10,845) |
| Write down of mineral property | (98,855) | - | (98,855) |
| **Balance – December 31, 2010** | **40,000** | **1,085,852** | **1,125,852** |

*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.

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 36,260 hectares of prospective structure and stratiography contiguous with the historic Kelly Creek prospect.

Subsequent to period ended December 31, 2010, the Company staked additional State of Alaska Claims expanding the Kelly Creek Project area 42,605 hectares.

*Lemon Lake Property, British Columbia, Canada*

During the period ended December 31, 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.

## 5. Share capital

Authorized:
Unlimited number of common shares

| | **Three months ended December 31, 2010** | | Year ended September 30, 2010 | |
|---|---|---|---|---|
| Issued: | **Common Shares #** | **Amount $** | Common Shares # | Amount $ |
| Balance – beginning of period | **33,953,224** | **4,307,979** | 18,568,424 | 2,503,819 |
| Shares issued in private placements | **-** | **-** | 13,686,500 | 1,702,975 |
| Shares issued as finders' fees | **-** | **-** | 248,300 | 37,245 |
| Shares issued on agent warrant exercise | **4,950** | **1,485** | - | - |
| Shares issued on warrant exercise | **100,000** | **20,000** | 1,450,000 | 217,500 |
| Share issuance costs | **-** | **-** | - | (153,560) |
| Balance – end of period | **34,058,174** | **4,329,464** | 33,953,224 | 4,307,979 |

Subsequent to period ended December 31, 2010, the Company announced a non-brokered private placement to raise gross proceeds of up to $3,000,000 by the issuance of 12,000,000 units (the "Units") of the Company at a price of $0.25 per Unit. Each Unit will consist of one common share and one non-transferable common share purchase warrant (a "Warrant"). Each Warrant will entitle the holder to purchase one additional common share of the Company at a purchase price of $0.35 per share for a period of 12 months from the date of closing (the "Closing Date") and thereafter at a price of $0.45 per share until 24 months from the Closing Date.

Warrants

The following table summarizes activity related to warrants:

| | Three months ended December 31, 2010 | | Year ended September 30, 2010 | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| | # | $ | # | $ |
| Balance – beginning of period | **12,236,500** | **0.18** | 4,583,336 | 0.25 |
| Issued | **-** | **-** | 13,686,500 | 0.17 |
| Price adjustment – old price | **(5,550,000)** | **0.15** | - | - |
| Price adjustment – new price | **5,550,000** | **0.20** | - | - |
| Exercised | **(100,000)** | **0.20** | (1,450,000) | 0.15 |
| Expired | **-** | **-** | (4,583,336) | 0.25 |
| Balance – end of period | **12,136,500** | **0.20** | 12,236,500 | 0.18 |

*Warrant price adjustment*

On October 1, 2010, the exercise price of 5,550,000 warrants originally issued on October 1, 2009 changed from $0.15 per common share to $0.20 per common share as per the original terms of these warrants.

The following table summarizes information about warrants outstanding:

| As at | December 31, 2010 | | | September 30, 2010 | |
|---|---|---|---|---|---|
| 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 |
| **5,550,000** | **0.20** | **0.8** | 5,550,000 | 0.15 | 1.0 |
| **6,586,500** | **0.20** | **1.5** | 6,686,500 | 0.20 | 1.8 |
| **12,136,500** | **0.20** | **1.2** | 12,236,500 | 0.18 | 1.4 |

Agent options

The following table summarizes activity related to agent options:

| | Three months ended December 31, 2010 | | Year ended September 30, 2010 | |
|---|---|---|---|---|
| | Number of agent options # | Weighted average exercise price $ | Number of agent options # | Weighted average exercise price $ |
| Balance – beginning of period | **550,300** | **0.15** | 400,000 | 0.40 |
| Issued | **-** | **-** | 550,300 | 0.15 |
| Exercised | **(4,950)** | **0.20** | - | |
| Expired | **-** | **-** | (400,000) | 0.40 |
| Balance – end of period | **545,350** | **0.14** | 550,300 | 0.15 |

The following table summarizes information about agent options outstanding:

| As at | December 31, 2010 | | | September 30, 2010 | |
|---|---|---|---|---|---|
| Number of agent options outstanding # | Weighted average exercise price $ | Weighted average remaining contractual life Years | Number of agent options outstanding # | Weighted Average exercise price $ | Weighted average remaining contractual life Years |
| **302,000** | **0.10** | **0.8** | 302,000 | 0.10 | 1.0 |
| **243,350** | **0.20** | **1.5** | 248,300 | 0.20 | 1.8 |
| **545,350** | **0.14** | **1.1** | 550,300 | 0.15 | 1.4 |

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:

| | Three months ended December 31, 2010 | | Year ended September 30, 2010 | |
|---|---|---|---|---|
| | **Number of options #** | **Weighted average exercise price $** | **Number of options #** | **Weighted average exercise price $** |
| Balance – beginning of period | **3,250,000** | **0.21** | 1,855,000 | 0.32 |
| Issued | **300,000** | **0.30** | 1,445,000 | 0.15 |
| Expired | **(250,000)** | **0.40** | (50,000) | 0.40 |
| Repriced – old price | **-** | - | (500,000) | 0.40 |
| Repriced – new price | **-** | - | 500,000 | 0.15 |
| Balance – end of period | **3,300,000** | **0.22** | 3,250,000 | 0.21 |

The following table summarizes information about stock options outstanding:

| **As at** | | **December 31, 2010** | | | **September 30, 2010** |
|---|---|---|---|---|---|
| **Number of stock options outstanding #** | **Weighted average exercise price $** | **Weighted average remaining contractual life Years** | **Number of stock options outstanding #** | **Weighted Average exercise price $** | **Weighted average remaining contractual life Years** |
| **730,000** | **0.40** | **1.8** | 730,000 | 0.40 | 2.0 |
| **500,000** | **0.15** | **1.8** | 500,000 | 0.15 | 2.0 |
| **525,000** | **0.15** | **3.1** | 525,000 | 0.15 | 3.3 |
| **50,000** | **0.12** | **3.7** | 50,000 | 0.12 | 3.9 |
| **1,195,000** | **0.15** | **4.5** | 1,445,000 | 0.15 | 4.8 |
| **300,000** | **0.30** | **5.0** | - | - | - |
| **3,300,000** | **0.22** | **3.3** | 3,250,000 | 0.21 | 3.5 |

*Stock options issued*

On December 21, 2010, the Company issued stock options pursuant to the Company's stock option plan to consultants of the Company to acquire an aggregate of 300,000 common shares, exercisable at a price of $0.30 per common share until December 21, 2015. The options were issued with an exercise price equal to the market price of the common shares on the issuance date.

The Company has recorded stock based compensation expense in the amount of $78,000 as calculated using the following grant date assumptions: a risk-free interest rate of 2.38%; expected hold prior to exercise of 5 years; expected volatility of 145.3%; and a dividend yield per share of 0%.

## 6. Contributed surplus

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

| | Three months ended December 31, 2010 | Year ended September 30, 2010 |
|---|---|---|
| | **$** | $ |
| Balance – beginning of period | **735,640** | 474,350 |
| Agent options issued | **-** | 48,990 |
| Agent options exercised | **(495)** | - |
| Stock options issued | **78,000** | 212,300 |
| Balance – end of period | **813,145** | 735,640 |

## 7. Financial instruments

Financial instrument classification

Cedar's financial instruments recognized on the balance sheet consist of cash, goods and services tax receivable, mineral exploration tax credit receivable, 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.

Goods and services tax receivable and mineral exploration tax credit receivable 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 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 period.

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 $437,481 in cash at December 31, 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.

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.

*Liquidity risk*

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

At December 31, 2010, Cedar's working capital is $413,021, 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.

**8. Related party transactions**

During the period ended December 31, 2010, management fees of $46,763 (2009 - $58,820) were paid to officers and directors or companies controlled by officers and directors of the Company. Capitalized geological consulting fees of $1,210 (2009 - nil) were paid to a company controlled by a director.

At December 31, 2010, the Company had outstanding accounts payable of $1,176 (2009 – $78,169) to directors and officers or companies controlled by directors and officers.

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.

**9. Comparative figures**

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