

Cedar Mountain Exploration Inc.

(A development stage enterprise)

Consolidated Financial Statements

For the years ended September 30, 2011 and 2010

Independent Auditor's Report

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To the Shareholders of
Cedar Mountain Exploration Inc.

We have audited the accompanying consolidated financial statements of Cedar Mountain Exploration Inc., which comprise the consolidated balance sheet as at September 30, 2011, the consolidated statement of net loss, comprehensive loss and deficit, and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cedar Mountain Exploration Inc. as at September 30, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred a net loss of \$1,254,944 during the year ended September 30, 2011 and, as of that date, the Company has an accumulated deficit of \$4,608,341. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other matter

The consolidated financial statements of Cedar Mountain Exploration Inc. for the year ended September 30, 2010 were audited by another auditor, Stout & Company LLP ("Stout"), who expressed an unmodified opinion on those statements on January 19, 2011. The partners and employees of Stout joined Grant Thornton LLP effective October 1, 2011.

Edmonton, Canada

January 25, 2012



Chartered Accountants

Cedar Mountain Exploration Inc. (A development stage enterprise)

Consolidated Balance Sheets

As at September 30, 2011 and 2010

	2011	2010
Assets		
Current		
Cash	\$ 768,011	\$ 733,200
Goods and services tax receivable	57,329	16,300
Mineral exploration tax credit receivable	2,982	36,437
Prepaid expenses and deposits	97,550	21,900
	<u>925,872</u>	807,837
Equipment (note 3)	83,982	58,344
Investment (note 4)	20,000	-
Mineral properties (note 5)	4,826,628	1,073,872
	<u>\$ 5,856,482</u>	<u>\$ 1,940,053</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 359,125	\$ 249,831
Shareholders' equity		
Share capital (note 7)	8,674,217	4,307,979
Contributed surplus (note 8)	1,431,481	735,640
Deficit	(4,608,341)	(3,353,397)
	<u>5,497,357</u>	1,690,222
	<u>\$ 5,856,482</u>	<u>\$ 1,940,053</u>

Nature of operations and going concern (note 1)

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. *(A development stage enterprise)*
Consolidated Statements of Net Loss, Comprehensive Loss, and Deficit
For the years ended September 30, 2011 and 2010

	2011		2010
Expenses			
Management fees and salaries	\$ 272,793	\$	381,987
Marketing and investor relations	175,233		117,287
Office and administration	158,973		149,250
Professional fees	44,185		58,067
Stock-based compensation (note 7)	568,000		212,300
	(1,219,184)		(918,891)
Other income (expenses)			
Interest income	22,321		29,915
Loss on foreign exchange	(36,227)		(1,478)
Loss on disposition of mineral property (note 5)	-		(44,255)
Write down of mineral properties (note 5)	(21,854)		(187,100)
Provision for debenture	-		(325,233)
Net loss and comprehensive loss for the year	(1,254,944)		(1,447,042)
Deficit - beginning of year	(3,353,397)		(1,906,355)
Deficit - end of year	\$ (4,608,341)	\$	(3,353,397)
Basic and diluted loss per common share	\$ (0.03)	\$	(0.05)
Weighted average number of common shares outstanding	44,722,549		27,139,159

See accompanying notes to the consolidated financial statements

Cedar Mountain Exploration Inc. *(A development stage enterprise)*
Consolidated Statements of Cash Flows
For the years ended September 30, 2011 and 2010

	2011		2010
Cash provided by (used in)			
Operating activities			
Net loss for the year	\$ (1,254,944)	\$	(1,447,042)
Items not affecting cash:			
Stock-based compensation	568,000		212,300
Write down of mineral properties	21,854		187,100
Loss on disposition of mineral property	-		44,255
Provision for debenture	-		325,233
	(665,090)		(678,154)
Change in non cash working capital items	(160,211)		111,577
	(825,301)		(566,577)
Investing activities			
Acquisition of mineral properties (note 5)	(220,658)		(352,223)
Proceeds on disposition of mineral property	-		500,000
Expenditures on mineral properties	(3,370,509)		(688,518)
Purchase of equipment	(42,800)		(61,414)
	(3,633,967)		(602,155)
Financing activities			
Proceeds from issuance of shares	4,736,456		1,828,475
Share issuance costs	(242,377)		(67,325)
	4,494,079		1,761,150
Increase in cash	34,811		592,418
Cash - beginning of year	733,200		140,782
Cash - end of year	\$ 768,011	\$	733,200

The non-cash transactions described in notes 4, 5 and 7 have been eliminated from the consolidated statements of cash flows.

See accompanying notes to the consolidated financial statements

Cedar Mountain Exploration Inc. *(A development stage enterprise)*

Notes to the Consolidated Financial Statements

For the years ended September 30, 2011 and 2010

1. Nature of operations and going concern

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 incurred a net loss of \$1,254,944 during the year ended September 30, 2011 and as of that date has an accumulated deficit of \$4,608,341 and expects to incur further losses in the development of its business and its mineral properties. These considerations raise significant 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 consolidated balance sheets at September 30, 2011 and 2010 include the assets and liabilities of the Company’s wholly owned subsidiary Cedar Mountain Exploration (Alaska) Inc. (“Cedar Alaska”) and the consolidated statements of net loss, comprehensive loss and deficit and cash flows for the years ended September 30, 2011 and 2010 include the results of operations of Cedar Alaska from the date of its incorporation on February 10, 2010.

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

Cedar Mountain Exploration Inc. *(A development stage enterprise)*

Notes to the Consolidated Financial Statements

For the years ended September 30, 2011 and 2010

Cash

Cash is comprised of cash on deposit at the Company's financial institutions.

Investments

Investments in which the Company does not exert control or significant influence are accounted for using the cost method whereby the investment is initially recorded at cost; earnings from such investments are recognized only to the extent received or receivable.

Use of 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 amounts reported and disclosed in the consolidated financial statements and related notes. 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, the valuation allowances taken on future income tax assets and the fair value of stock based compensation. Actual results could differ materially 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 consolidated 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.

Financial Instruments

CICA Handbook Section 3862 "Financial Instruments - Disclosure" requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value

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measurement. CICA Handbook Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 - applies to assets and liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 - applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 – applies to assets or liabilities for which there are unobservable market data.

The Company's financial instruments consist principally of cash, investments and accounts payable and accrued liabilities. Pursuant to CICA Handbook Section 3862, fair value of assets and liabilities measured on a recurring basis includes cash based on Level 1 inputs, which consist of quoted prices in active markets for identical assets.

The Company classifies financial instruments into one of five categories: held for trading financial assets, held to maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

The Company accounts for regular-way purchases and sales of financial assets on the trade date, being the date on which the Company commits to buy or sell the asset. Transaction costs related to financial assets or financial liabilities classified as other than held for trading are added to the initial carrying value of the financial asset or liability.

Foreign currency translation

The Company applies the temporal method in the translation and consolidation of its integrated foreign subsidiary. 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 date the fair value is determined. 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. Foreign currency gains or losses arising on translation are included in net loss.

Flow-through shares

The proceeds of flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada) (the "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 current or future income tax deduction to the Company.

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Share capital is reduced and a future income tax liability is recorded by 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 future income tax assets exceeding the future income tax effect of the renunciation of the deductions, the corresponding future income tax asset may 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

The Company reviews the recoverability of its long-lived assets at the end of each reporting period and when events and circumstances indicate an impairment event may have occurred. The Company assesses the recoverability of its long-lived assets by determining whether the carrying value of the long-lived assets can be recovered over their remaining lives through undiscounted future operating cash flows. In the event that future recoverability is not supported, an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its fair value.

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 income 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 income 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 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 method based upon the proven reserves available. If the properties are sold or abandoned, these expenditures are 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.

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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 is 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.

Loss per share

Basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted loss 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 instruments is recorded in the consolidated statement of net loss, comprehensive loss and deficit over their vesting period with a corresponding increase to contributed surplus. The fair value of warrants or options issued to agents is recorded as share issuance 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.

3. Equipment

	Cost	Accumulated Amortization	Net Book Value
As at September 30, 2011			
Field equipment	\$ 104,214	\$ 20,232	\$ 83,982
As at September 30, 2010			
Field equipment	\$ 61,414	\$ 3,070	\$ 58,344

The company has estimated that the field equipment has a useful life of 5 years and will have no residual value at the end of its useful life. During the year ended September 30, 2011, amortization of \$17,162 (2010 –

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\$3,070) was capitalized to the Kelly Creek mineral property. All field equipment was located in the United States of America at September 30, 2011.

4. Investment

On April 28, 2011, the Company sold the Lemon Lake mineral property located in British Columbia, Canada in exchange for 400,000 common shares with a fair value of \$20,000 of Metalogic Exploration Inc. ("Metalogic"), a newly incorporated private Canadian corporation. This investment is accounted for using the cost method.

5. Mineral properties

Additions	Canada	U.S.A.	Total
	BC Properties	Alaskan Properties	
	\$	\$	\$
Balance – September 30, 2009	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 properties	(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	-	220,658	220,658
Analysis	872	-	872
Geological consulting	-	221,662	221,662
Fieldwork	982	3,350,436	3,351,418
Write down of mineral property	(21,854)	-	(21,854)
Disposition of mineral property	(20,000)	-	(20,000)
Balance – September 30, 2011	-	4,826,628	4,826,628
Balance as at September 30, 2011			
Acquisition	-	572,881	572,881
Exploration	-	4,253,747	4,253,747
	-	4,826,628	4,826,628
Balance as at September 30, 2010			
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)
Disposition of mineral property	-	-	-
	40,000	1,033,872	1,073,872

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Kelly Creek Project, Alaska, United States of America

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

Under the terms of the KC Agreement, Cedar may lease the KC Project (the “Lease”) from the Vendor by paying aggregate lease payments of United States Dollars (“USD”) 1.5 Million and incurring USD 2.15 Million in exploration (“Work Commitments”) over six years. The Work Commitments expenditure requirement has been completed. 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. The KC Agreement also requires Cedar, during the term of the Lease, to maintain the KC Project in good standing. The KC Agreement may be terminated at any time by Cedar. Lease payments made to date include USD 50,000 during the year ended September 30, 2010 and USD 50,000 during the year ended September 30, 2011. In each of 2012 and 2013, the KC Agreement requires a USD 100,000 lease payment, a USD 200,000 lease payment in 2014 then a USD 500,000 lease payment in each of 2015 and 2016.

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 KC Agreement, the Company agreed to pay a finder’s fee (“Finder’s Fee”) to an arm’s length third party (the “Finder”) for total consideration of USD 70,000 over five years. Provided the KC 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. Finder’s Fee cash payments made to date include USD 10,000 during the year ended September 30, 2010 and USD 10,000 during the year ended September 30, 2011. The Finder’s Fee agreement requires the issuance of USD 5,000 in common shares in 2012 and USD 10,000 in common shares in 2013, as well as a USD 10,000 cash payment in each of these years. The final cash payment to the Finder for USD 15,000 would be due in 2014.

During the year ended September 30, 2011, the Company staked additional State of Alaska claims surrounding the KC Project bringing the total claims on the property to 553 covering 35,806 hectares.

Lemon Lake Property, British Columbia, Canada

During December 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, Canada to a newly incorporated private company, Metalogic, in exchange for 400,000 common shares of the private company with a value of \$0.10 per

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common share. The Company determined that this transaction was an indication of the fair value of the property as at September 30, 2010 and therefore recorded an impairment to the Lemon Lake property in the amount of \$98,855, as a component of net loss, to reflect the negotiated sale value of \$40,000.

On April 28, 2011, the Company amended the terms of the sale of the Lemon Lake property to 400,000 common shares of Metalogic with a value of \$0.05 per common share. As a result, the Company recorded an additional impairment to the Lemon Lake Property in the amount of \$20,000, recorded as a component of net loss, to reflect the amended sale value of \$20,000 (note 4).

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 allowed the underlying mineral claims to lapse. The Company determined that the Venus Property lacked merit relative to other opportunities.

Segmented disclosure

The Company has one operating segment, mineral exploration, and all assets of the Company are located in Canada except for its mineral property interest in the State of Alaska in the United States of America, described above, and equipment (note 3).

6. 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:

	2011	2010
	\$	\$
Expected tax recovery at a rate of 26.88% (2010 – 28.88%)	337,329	417,867
Increase (decrease) resulting from:		
Effect of tax rate changes	(12,113)	(85,637)
Non-deductible expenses	(162,880)	(58,763)
Change in valuation allowance	(162,336)	(273,467)
Income tax benefit (expense)	-	-

Future income tax assets of \$60,595 (2010 - \$26,142) arising from share issuance costs incurred in the year ended September 30, 2011 were not recognized as the amounts were not considered more likely than not to be

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realized. As a result, a valuation allowance was recorded against the full amount of these future income tax assets when the share issuance costs were incurred.

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

	<u>2011</u>	<u>2010</u>
	\$	\$
Mineral properties	120,432	109,856
Non-capital losses carried forward	635,692	452,652
Equipment	3,838	768
Capital loss carried forward	81,004	81,004
Share issuance and incorporation costs	81,895	55,650
Valuation allowance	(922,861)	(699,930)
	<hr/>	<hr/>
Net recognized future income tax asset	-	-

The Company has Canadian non-capital losses of \$2,542,769 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
2011	732,161	2031
	<hr/>	
	2,542,769	

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

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7. Share capital

Authorized:

Unlimited number of common shares

For the year ended September 30	2011		2010	
	Common Shares #	Amount \$	Common Shares #	Amount \$
Issued:				
Balance – beginning of year	33,953,224	4,307,979	18,568,424	2,503,819
Shares issued in private placements	17,389,000	4,347,250	13,686,500	1,702,975
Shares issued as finders' fees	-	-	248,300	37,245
Shares issued on warrant exercise	1,878,500	375,700	1,450,000	217,500
Shares issued on finders' warrant exercise	67,525	13,506	-	-
Reclassified from contributed surplus	-	6,752	-	-
Share issuance costs	-	(376,970)	-	(153,560)
Balance – end of year	53,288,249	8,674,217	33,953,224	4,307,979

On March 8, 2011, the Company completed a non-brokered private placement to raise gross proceeds of \$4,347,250 by the issuance of 17,389,000 units (the "Units") of the Company at a price of \$0.25 per Unit. Each Unit consisted of one common share of the Company ("Common Share") and one non-transferable Common Share purchase warrant (a "Warrant"). Each Warrant is exercisable to acquire one additional Common Share in the capital of the Company at an exercise price of \$0.35 per Common Share until March 8, 2012 and thereafter at an exercise price of \$0.45 per Common Share until March 8, 2013. The Company has assigned the full amount of the proceeds to the Common Shares and none to the Warrants.

The Company paid aggregate cash Finder's fees of \$186,935 and issued an aggregate of 747,740 Common Share purchase warrants (each a "Finder's Warrant") as payment of finder's fees. Each Finder's Warrant is exercisable to purchase one Common Share of the Company at an exercise price of \$0.26 per Common Share until March 8, 2013.

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 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.

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For the years ended September 30, 2011 and 2010

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 to the Common Shares and none to the Warrants.

Agents acting in connection with the October 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.

Warrants

The following table summarizes activity related to warrants:

For the year ended September 30	2011		2010	
	Number of warrants #	Weighted average exercise price \$	Number of warrants #	Weighted average exercise price \$
Balance – beginning of year	12,236,500	0.18	4,583,336	0.25
Issued	17,389,000	0.35	13,686,500	0.17
Price adjustment – old price October 1, 2009	(5,550,000)	0.15	-	-
Price adjustment – new price October 1, 2010	5,550,000	0.20	-	-
Price adjustment – old price July 9, 2010	(5,538,000)	0.20	-	-
Price adjustment – new price July 9, 2011	5,538,000	0.30	-	-
Exercised	(1,878,500)	0.20	(1,450,000)	0.15
Expired	-	-	(4,583,336)	0.25
Balance – end of year	27,747,000	0.31	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 in accordance with the original terms of these warrants.

On July 9, 2011, the exercise price of 5,538,000 warrants originally issued on July 9, 2010 changed from \$0.20 per common share to \$0.30 per common share in accordance with the original terms of these warrants.

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The following table summarizes information about warrants outstanding:

As at September 30			2011			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	Number of warrants outstanding	Weighted average exercise price	Weighted average Remaining contractual life
#	\$	Years	#	\$	Years	#	\$	Years
4,820,000	0.20	-	5,550,000	0.15	1.0	-	-	-
5,538,000	0.30	0.8	6,686,500	0.20	1.8	-	-	-
17,389,000	0.35	1.4	-	-	-	-	-	-
27,747,000	0.31	1.0	12,236,500	0.18	1.4	-	-	-

Agent options and finder's warrants

The Company recorded share issuance costs in the amount of \$134,593 for the year ended September 30, 2011 (2010 – \$48,990) relating to the fair value of 747,740 finder's warrants issued on March 8, 2011 (2010 – 550,300).

The weighted average fair value of finder's warrants that were granted during the year was \$0.18 (2010 - \$0.09) per warrant. The fair value of each finder's warrant granted is estimated on the date of grant using the Black-Scholes option pricing model. The finder's warrants were issued with an exercise price equal to the Company's common share market price on the date of issuance.

The weighted average assumptions used in the calculation of the fair value of finder's warrants issued in the year include a risk-free interest rate of 1.88% (2010 – 1.43%); expected hold prior to exercise of 2 years (2010 – 2 years); expected volatility of 130% (2010 – 162%); and a dividend yield per share of 0% (2010 – 0%).

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The following table summarizes activity related to agent options and finder's warrants:

<u>For the year ended September 30</u>	<u>2011</u>		<u>2010</u>	
	Number of agent options, finder's warrants #	Weighted average exercise price \$	Number of agent options, finder's warrants #	Weighted average exercise price \$
Balance – beginning of year	550,300	0.15	400,000	0.40
Issued	747,740	0.26	550,300	0.15
Price adjustment – old price	(180,775)	0.20	-	
Price adjustment – new price	180,775	0.30	-	
Exercised	(67,525)	0.20	-	-
Expired	-	-	(400,000)	0.40
Balance – end of year	1,230,515	0.23	550,300	0.15

Finder's warrants price adjustment

On July 9, 2011, the exercise price of 180,775 finder's warrants originally issued on July 9, 2010 changed from \$0.20 per common share to \$0.30 per common share in accordance with the original terms of these warrants.

The following table summarizes information about agent options and finder's warrants outstanding:

<u>As at September 30</u>	<u>2011</u>			<u>2010</u>		
Number of agent options, finder's warrants outstanding #	Weighted average exercise price \$	Weighted average Remaining contractual life Years	Number of agent options, finder's warrants outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years	
302,000	0.10	-	302,000	0.10	1.0	
180,775	0.30	0.8	248,300	0.20	1.8	
747,740	0.26	1.4	-	-	-	
1,230,515	0.23	1.0	550,300	0.15	1.4	

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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. Options granted under the plan may not exceed five years and vest at terms to be determined by the board of directors at the time of the grant, but shall not be less than the price permitted by the policy or policies of the stock exchange(s) on which the Company’s common shares are then listed, or \$0.10 per share. Occasionally the Company issues stock options to agents which do not fall under the plan.

The following table summarizes activity related to stock options:

For the year ended September 30	2011		2010	
	Number of stock options #	Weighted average exercise price \$	Number of stock options #	Weighted average exercise price \$
Balance – beginning of year	3,250,000	0.21	1,855,000	0.32
Issued	2,350,000	0.27	1,445,000	0.15
Expired	(600,000)	0.17	(50,000)	0.40
Price adjustment – old price	-	-	(500,000)	0.40
Price adjustment – new price	-	-	500,000	0.15
Balance – end of year	5,000,000	0.24	3,250,000	0.21

The following table summarizes information about stock options outstanding:

As at September 30		2011		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	1.0	730,000	0.40	2.0
500,000	0.15	1.0	500,000	0.15	2.0
275,000	0.15	2.3	525,000	0.15	3.3
50,000	0.12	2.9	50,000	0.12	3.9
1,195,000	0.15	3.8	1,445,000	0.15	4.8
300,000	0.30	4.2	-	-	-
450,000	0.28	4.4	-	-	-
1,500,000	0.27	4.6	-	-	-
5,000,000	0.24	3.3	3,250,000	0.21	3.5

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Stock options issued

On December 2, 2010, the Company issued stock options pursuant to the Corporation's stock option plan to a consultant of the Corporation to acquire an aggregate of 100,000 common shares, exercisable at a price of \$0.25 per common share until December 2, 2015. The options were issued with an exercise price exceeding the market price of the common shares on the issuance date. The weighted average fair value of the options on the date of grant was \$0.22.

On December 21, 2010, the Company issued stock options pursuant to the Corporation's stock option plan to consultants of the Corporation 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 exceeding the market price of the common shares on the issuance date. The weighted average fair value of the options issued on the date of grant was \$0.26.

On March 8, 2011, the Company issued stock options pursuant to the Corporation's stock option plan to an employee and a consultant of the Corporation to acquire an aggregate of 450,000 common shares, exercisable at a price of \$0.28 per common share until March 8, 2016. The options were issued with an exercise price exceeding the market price of the common shares on the issuance date. The weighted average fair value of the options issued on the date of grant was \$0.24.

On April 28, 2011, the Company issued stock options pursuant to the Corporation's stock option plan to directors, officers and consultants of the Corporation to acquire an aggregate of 1,500,000 common shares, exercisable at a price of \$0.27 per common share until April 28, 2016. The options were issued with an exercise price equal to the market price of the common shares on the issuance date. The weighted average fair value of the options issued on the date of grant was \$0.24.

Stock options price adjustment

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 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 adjustment date assumptions under the original exercise price and the new exercise price. The calculated increment in fair value due to the adjustment was \$0.02 per option adjusted using the following adjustment 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 adjusted options exceeded the market price on the date of adjustment.

Stock-based compensation

All of the Company's outstanding stock options, agent options and finder's warrants were exercisable as at September 30, 2011.

The Company recorded stock-based compensation expense in the amount of \$568,000 for the year ended September 30, 2011 (2010 – \$212,300) in the statement of net loss, comprehensive loss, and deficit for stock options issued and vested during the year. The stock-based compensation expense has been determined based on the fair value of an aggregate 2,350,000 stock options (2010 – 1,445,000).

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The weighted average fair value of options that were granted during the year was \$0.27 (2010 - \$0.15) per option. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model.

The weighted average assumptions used in the calculation of the fair value of options issued in the year include a risk-free interest rate of 2.62% (2010 – 2.54%); expected hold prior to exercise of 5 years (2010 – 5 years); expected volatility of 140% (2010 – 152%); and a dividend yield per share of 0% (2010 – 0%).

8. Contributed surplus

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

For the year ended September 30	2011	2010
	\$	\$
Balance – beginning of year	735,640	474,350
Finder's warrants issued	134,593	48,990
Finder's warrants exercised	(6,752)	-
Stock options issued	568,000	212,300
	<hr/>	<hr/>
Balance – end of year	1,431,481	735,640

9. Financial instruments

Financial instrument classification

Cedar's financial instruments recognized on the balance sheet consist of cash, investment, 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 (Level 1 inputs). The investment is classified as an available for sale financial asset and is carried at cost as it does not have a quoted price in an active market.

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, with the exception of investment, approximate their carrying values due to their short-term nature.

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

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For the years ended September 30, 2011 and 2010

Capital management

Cedar's capital consists of shareholders' equity.

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 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 \$768,011 in cash at September 30, 2011, 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 a counter party to a financial instrument fails to meet its contractual obligations. The Company is not exposed to any material credit risk.

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.

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Cedar maintains the majority of its cash reserves in Canadian Dollars. A portion of the Company's funds is held in United States Dollars and is therefore subject to fluctuations in foreign exchange rates.

At September 30, 2011, the Company has certain monetary items denominated in United States Dollars. Based on these net exposures at September 30, 2011 a 10% appreciation or depreciation of the Canadian Dollar against the United States Dollar would result in an increase or decrease of \$24,399 (2010 – \$16,131) in the Company's net loss.

Liquidity risk

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

At September 30, 2011 and 2010, the Company's current liabilities consisted of accounts payable and accrued liabilities of \$359,125 and \$249,831 respectively, due primarily within the next fiscal quarter. The Company's cash of \$768,011 at September 30, 2011 and \$733,200 at September 30, 2010 were more than sufficient to pay these current liabilities.

At September 30, 2011, Cedar's working capital is \$566,747 (2010 - \$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.

10. Related party transactions

During the year ended September 30, 2011, management fees of \$167,388 (2010 - \$53,075) were paid to companies controlled by officers and directors of the Company. Marketing and investor relations consulting fees of \$83,336 (2010 – nil) were paid to a company controlled by an officer who is also a director of the Company, appointed in February of 2011. Capitalized geological consulting fees of \$6,291 (2010 - nil) were paid to a company controlled by a director.

At September 30, 2011, the Company had no outstanding accounts payable to directors and officers or companies controlled by directors and officers (2010 – nil).

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. Subsequent Events

On January 17, 2012, the Company announced that it had entered into an option agreement (the "Graphite Creek Option") with an arm's length party to earn a 100% interest in the Graphite Creek project, an approximately 1,375 hectare property on the Seward Peninsula of Alaska. The Graphite Creek project is an early stage exploration property which the Company has assessed is of high prospectivity for large-flake, high grade graphite. To complete the Graphite Creek Option, the Company must incur exploration expenditures on the Graphite Creek property totalling United States dollars ("USD") 1,525,000 over three years, with expenditures of: USD 25,000 in the calendar year 2012; USD 500,000 in the calendar year 2013, and; USD 1,000,000 in the calendar year 2014. Additionally, to complete the Graphite Creek Option, the Company is required to make aggregate cash payments to the vendor of the Graphite Creek project totalling USD 425,000, including: USD

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25,000 upon entering the Graphite Creek Option; USD 50,000 due March 1, 2012; USD 100,000 due March 1, 2013, and; USD 250,000 on March 1, 2014.

Upon completion of the Graphite Creek Option, the Company's interest in the Graphite Creek project will be governed by an initial 20 year lease with provisions for renewal (the "Graphite Creek Lease"). During the term of the Graphite Creek Lease, the Company must pay an advance royalty (the "Advance Royalty") of USD 30,000 per year for each of the first five years and increasing by USD 10,000 per year thereafter, until such time as the Graphite Creek project commences production. Upon commencement of production, the Graphite Creek property shall be subject to a 5% net smelter royalty in favour of the vendor of the Graphite Creek project (the "Graphite Creek NSR"), of which 50% of the total amount payable under the Graphite Creek NSR may be settled by applying advance royalties paid prior to production. The Company shall have the additional option of reducing the Graphite Creek NSR to 3% by making cash payments to the beneficiary of the Graphite Creek Royalty of USD 2,000,000 for each 1% of the total 5% Graphite Creek Royalty.