# Cedar Mountain Exploration Inc.

Financial Statements

**For the three months ended December 31, 2009 and 2008**

To the shareholders of Cedar Mountain Exploration Ltd:

The interim balance sheets of Cedar Mountain Exploration Ltd. as at December 31, 2009 and 2008, and the interim statements of 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.
## Balance Sheets

| As at | *(unaudited)* **December 31, 2009** **$** | *(audited)* September 30, 2009 $ |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | **566,586** | 140,782 |
| Accounts receivable | **53,912** | 150,988 |
| Prepaid expenses and deposits | **13,500** | 21,900 |
| Debenture (Note 3) | **300,000** | 300,000 |
| | **933,998** | 613,670 |
| **Mineral properties (note 5)** | **764,530** | 764,398 |
| | **1,698,528** | 1,378,068 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **100,272** | 214,254 |
| Advance share subscriptions received | **-** | 92,000 |
| | **100,272** | 306,254 |
| **Shareholders' equity** | | |
| Share capital (note 7) | **3,151,993** | 2,503,819 |
| Contributed surplus (note 8) | **486,430** | 474,350 |
| Deficit | **(2,040,167)** | (1,906,355) |
| | **1,598,256** | 1,071,814 |
| | **1,698,528** | 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.

**Statements of Net Loss, Comprehensive Loss, and Deficit**
**For the three months ended December 31, 2009 and 2008** ***(unaudited)***

| For the three months ended December 31 | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| **Expenses** | | |
| Office and administration | **27,285** | 21,577 |
| Marketing and investor relations | **29,116** | 13,449 |
| Professional fees | **9,381** | 5,533 |
| Management fees | **72,920** | 47,170 |
| Project generation | **3,991** | - |
| | **(142,693)** | (87,729) |
| **Other income (expenses)** | | |
| Interest income | **9,280** | 565 |
| Foreign exchange | **(399)** | - |
| **Net loss from continuing operations** | **(133,812)** | (87,164) |
| **Discontinued operations** | **-** | (15,843) |
| **Net loss and comprehensive loss for the period** | **(133,812)** | (103,007) |
| **Deficit - beginning of period** | **(1,906,355)** | (1,039,074) |
| **Deficit - end of period** | **(2,040,167)** | (1,142,081) |
| **Basic and diluted net loss from continuing operations per common share** | **(0.01)** | (0.01) |
| **Weighted average number of common shares outstanding** | **18,568,424** | 15,560,543 |

See accompanying notes to financial statements

# Cedar Mountain Exploration Inc.

## Statements of Cash Flows

## For the three months ended December 31, 2009 and 2008 *(unaudited)*

| For the three months ended December 31 | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss for the period | **(133,812)** | (87,163) |
| Change in non-cash working capital items | **(887)** | (30,581) |
| **Cash used in continuing operations** | **(134,699)** | (117,744) |
| **Cash used in discontinued operations** | **-** | (2,277) |
| | **(134,699)** | (120,021) |
| **Investing activities** | | |
| Acquisition (note 3) | **-** | (510,930) |
| Expenditures on mineral properties | **(7,751)** | (24,795) |
| | **(7,751)** | (535,725) |
| **Financing activities** | | |
| Proceeds from issuance of shares | **700,000** | 686,500 |
| Share issuance costs | **(39,746)** | (20,877) |
| Advance share subscriptions | **(92,000)** | |
| | **568,254** | 665,623 |
| **Increase in cash** | **425,804** | 9,877 |
| **Cash - beginning of period** | **140,782** | 378,724 |
| **Cash - end of period** | **566,586** | 388,601 |

See accompanying notes to financial statements

## 1. Nature of operations

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

Cedar Mountain 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, 2009, 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, 2009 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 statements of net loss, comprehensive loss and deficit and cash flows for the three months ended December 31, 2008 include the accounts of Evoba from the date of its incorporation (September 30, 2008) and the accounts of Sterling Mexico from the date of acquisition (note 3).

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.

### New accounting policies

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

*Financial instruments*

In June 2009, the CICA Handbook Section 3862 was amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure, effective for the Company beginning October 1, 2009. 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.

Additional disclosure concerning the fair value hierarchy of the Company's financial instruments will be included in the Company's financial statements for the year ended September 30, 2010.

## 3. Acquisition and discontinued operations

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 | 5,531 |
| Total purchase price | $ 270,950 |
| Cash | $ 122,093 |
| Non-cash working capital | 18,766 |
| Mineral properties | 130,091 |
| Net assets acquired | $ 270,950 |

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

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"). The principal amount and unpaid accrued interest is payable on August 27, 2010 . In the event that the Buyer defaults on payment of the Debenture, the Company has the right to repurchase the Buyer's interest in Evoba and Sterling in exchange for cancellation of the Debenture.

The results of operations and cash flows for the current 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:

| **Three months ended December 31** | **2009** | **2008** |
|---|---|---|
| | $ | $ |
| Revenues | - | - |
| Expenses | - | (15,843) |
| Discontinued operations | - | (15,843) |
| Basic and diluted net loss from discontinued operations per common share | - | (0.00) |

## 4. Mineral properties

| | **British Columbia, Canada** | | | **Mexico** | |
|---|---|---|---|---|---|
| | **Cedar Creek** | **Lemon Lake** | **Venus** | **Jimenez del Teul & País del Elephante** | **Total** |
| | **$** | **$** | **$** | **$** | **$** |
| **Balance – September 30, 2008** | **576,645** | **138,381** | **79,122** | **-** | **794,148** |
| Acquisition | - | - | - | 497,368 | 497,368 |
| Claims and land use | - | 613 | 366 | - | 979 |
| Geological consulting | 5,433 | 2,610 | 2,126 | 9,872 | 20,041 |
| Analysis | - | 3,262 | 20 | - | 3,282 |
| Fieldwork | 235 | 218 | 35 | - | 488 |
| **Balance – December 31, 2008** | **582,313** | **145,084** | **81,669** | **507,240** | **1,316,306** |
| Acquisition | - | | - | 6,060 | 6,060 |
| Claims and land use | 1,652 | - | - | 67,465 | 69,117 |
| Geological consulting | 1,596 | 239 | 378 | 34,774 | 36,987 |
| Analysis | - | - | - | 2,848 | 2,848 |
| Fieldwork | 150 | 1 | (1) | - | 150 |
| Mineral tax credits | (42,306) | (4,010) | (2,367) | - | (48,683) |
| Properties disposed (note 3) | - | - | - | (618,387) | (618,387) |
| **Balance September 30, 2009** | **543,405** | **141,314** | **79,679** | **-** | **764,398** |
| Geological Consulting | **14** | **-** | **-** | **-** | **14** |
| Fieldwork | **175** | **-** | **-** | **-** | **175** |
| Mineral tax credits | **(57)** | **-** | **-** | **-** | **(57)** |
| **Balance – December 31, 2009** | **543,537** | **141,314** | **79,679** | **-** | **764,530** |
| Acquisition | 138,440 | 121,845 | 66,748 | - | |
| Claims and land use | - | - | - | - | |
| Exploration | 527,709 | 27,673 | 18,484 | - | |
| Mineral tax credits | (122,612) | (8,204) | (5,553) | - | |
| **Balance – December 31, 2009** | **543,537** | **141,314** | **79,679** | **-** | **764,530** |

## 5. Share capital

Authorized:
Unlimited number of common shares

| Issued: | Three months ended December 31, 2009 Common Shares # | Amount $ | Year ended September 30, 2009 Common Shares # | Amount $ |
|---|---|---|---|---|
| Balance – beginning of period | 18,568,424 | 2,503,819 | 13,985,088 | 1,839,166 |
| Shares issued for cash | 7,000,000 | 700,000 | 4,576,669 | 686,500 |
| Shares issued to commissions | - | - | 6,667 | 1,000 |
| Share issuance costs | - | (51,826) | - | (22,847) |
| Balance – end of period | **25,568,424** | **3,151,993** | 18,568,424 | 2,503,819 |

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 "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 securities issued pursuant to the Offering are subject to a four-month hold period which expires on February 2, 2010.

Finders 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. The estimated fair value of the agents' warrants, aggregating $12,080 has been recorded as an increase to contributed surplus and a reduction of share capital. The fair value of the Agents' Warrants was estimated using the Black Scholes option pricing model withthe following grant date assumptions: a risk-free interest rate of 1.20%; expected hold prior to exercise of 2 years; expected volatility of 80%; and a dividend yield per share of 0%.

Warrants

The following table summarizes activity related to warrants:

| | Three months ended December 31, 2009 | | Year ended September 30, 2009 | |
|---|---|---|---|---|
| | Number of warrants # | Weighted average exercise price $ | Number of warrants # | Weighted average exercise price $ |
| Balance – beginning of period | - | - | - | - |
| Issued | 6,666,666 | 0.15 | - | - |
| Expired | (4,583,336) | 0.25 | - | - |
| Balance – end of period | 7,000,000 | 0.15 | - | - |

The following table summarizes information about warrants outstanding:

| As at December 31, 2009 | | | As at September 30, 2009 | | |
|---|---|---|---|---|---|
| Number of warrants outstanding # | Weighted average exercise price $ | Weighted average remaining contractual life Years | Number of warrants outstanding # | Weighted average exercise price $ | Weighted average remaining contractual life Years |
| 7,000,000 | 0.15 | 1.8 | 2,091,670 | 0.25 | 0.35 |
| - | - | - | 2,491,666 | 0.25 | 0.50 |
| 7,000,000 | 0.15 | 1.8 | 4,583,336 | 0.25 | 0.43 |

Agent options

The following table summarizes activity related to agent options:

| | Three months ended December 31, 2009 | | Year ended September 30, 2009 | |
|---|---|---|---|---|
| | Number of agent options # | Weighted average exercise price $ | Number of agent options # | Weighted average exercise price $ |
| Balance – beginning of period | 400,000 | 0.40 | 400,000 | 0.40 |
| Issued | 30,200 | 0.10 | - | - |
| Expired | (400,000) | 0.40 | - | - |
| Balance – end of period | 30,200 | 0.10 | 400,000 | 0.40 |

The following table summarizes information about agent options outstanding:

| As at December 31, 2009 | | | As at September 30, 2009 | | |
|---|---|---|---|---|---|
| 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 |
| 30,200 | 0.10 | 1.8 | 400,000 | 0.40 | 1.0 |
| 30,200 | 0.10 | 1.8 | 400,000 | 0.40 | 1.0 |

Stock options

The following table summarizes activity related to stock options:

| | Three months ended December 31, 2009 | | Year ended September 30, 2009 | |
|---|---|---|---|---|
| | Number of options # | Weighted average exercise price $ | Number of options # | Weighted average exercise price $ |
| Balance – beginning of period | 1,855,000 | 0.32 | 1,380,000 | 0.40 |
| Granted | - | - | 575,000 | 0.15 |
| Expired | - | - | (100,000) | 0.40 |
| Balance – end of period | 1,855,000 | 0.32 | 1,855,000 | 0.32 |

The following table summarizes information about stock options outstanding:

| | | As at December 31, 2009 | | | As at September 30, 2009 |
|---|---|---|---|---|---|
| **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** |
| 1,280,000 | 0.40 | 2.8 | 1,280,000 | 0.40 | 3.1 |
| 525,000 | 0.15 | 4.1 | 525,000 | 0.15 | 4.3 |
| 50,000 | 0.12 | 4.7 | 50,000 | 0.12 | 4.9 |
| 1,855,000 | 0.32 | 3.2 | 1,855,000 | 0.32 | 3.5 |

## 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, 2009** | **Year ended September 30, 2009** |
|---|---|---|
| | $ | $ |
| Balance – beginning of period | **474,350** | 444,600 |
| Agent options granted | **12,080** | - |
| Stock options granted | **-** | 29,750 |
| Balance – end of period | **486,430** | 474,350 |

## 7. Financial instruments

Financial instrument classification

Cedar's financial instruments recognized on the balance sheet consist of cash, accounts 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.

Accounts 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 cash and 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.

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 approximately $566,586 in cash at September 30, 2009, on which it may earn 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 counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to a debenture with a face value of $300,000 (note 3).

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 its cash reserves in Canadian Dollars, however certain amounts are occasionally held in other currencies, 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. Management has estimated the risk on foreign currency to be immaterial.

*Liquidity risk*

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

As at December 31, 2009, Cedar's working capital is $833,726, and it 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

At December 31, 2009, the Company had an outstanding payable to companies with common officers and directors in the amount of $67,097 (September 30, 2008 - $12,906) for reimbursement of shared staffing, general and administrative costs.

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.