# Cedar Mountain Exploration Inc.

Financial Statements
**For the years ended September 30, 2009 and 2008**

STOUT & COMPANY LLP
CHARTERED ACCOUNTANTS EDMONTON, CANADA

## AUDITORS' REPORT

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

We have audited the balance sheets of **Cedar Mountain Exploration Inc.** as at September 30, 2009 and 2008 and the statements of net loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Stout + Company LLP

Chartered Accountants

Edmonton, Canada
December 7, 2009

# Cedar Mountain Exploration Inc.
## Balance Sheets
## As at September 30, 2009 and 2008

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Assets** | | |
| **Current** | | |
| Cash | **140,782** | 378,724 |
| Accounts receivable | **150,988** | 100,595 |
| Prepaid expenses and deposits | **21,900** | 21,900 |
| Debenture (Note 3) | **300,000** | - |
| | **613,670** | 501,219 |
| **Mineral properties (Note 5)** | **764,398** | 794,148 |
| | **1,378,068** | 1,295,367 |
| **Liabilities** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **214,254** | 50,675 |
| Advance share subscriptions received (Note 12) | **92,000** | - |
| | **306,254** | 50,675 |
| **Shareholders' equity** | | |
| Share capital (Note 7) | **2,503,819** | 1,839,166 |
| Contributed surplus (Note 8) | **474,350** | 444,600 |
| Deficit | **(1,906,355)** | (1,039,074) |
| | **1,071,814** | 1,244,692 |
| | **1,378,068** | 1,295,367 |

**Approved on behalf of the Board**

**Signed "*John* Williamson" Director**

**Signed "*Sean Mager*" Director**

See accompanying notes to the financial statements

# Cedar Mountain Exploration Inc.
## Statements of Net Loss, Comprehensive Loss and Deficit
## For the years ended September 30, 2009 and 2008

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Expenses** | | |
| Management fees | **208,302** | 193,200 |
| Marketing and investor relations | **58,895** | 73,294 |
| Office and administration | **121,326** | 110,449 |
| Professional fees | **60,256** | 25,708 |
| Project generation | **24,277** | - |
| Stock-based compensation (Note 7) | **29,750** | 372,600 |
| | **(502,806)** | (775,251) |
| **Other income (expenses)** | | |
| Interest income | **3,938** | 26,151 |
| Write down of mineral properties (Note 5) | **-** | (132,121) |
| **Net loss from continuing operations** | **(498,868)** | (881,221) |
| **Discontinued operations (Note 3)** | **(368,413)** | (3,742) |
| **Net loss and comprehensive loss for the year** | **(867,281)** | (884,963) |
| **Deficit - beginning of year** | **(1,039,074)** | (154,111) |
| **Deficit - end of year** | **(1,906,355)** | (1,039,074) |
| **Basic and diluted net loss from continuing operations per common share** | **(0.03)** | (0.06) |
| **Basic and diluted net loss per common share** | **(0.05)** | (0.06) |
| **Weighted average number of common shares outstanding** | **17,810,273** | 13,826,143 |

See accompanying notes to the financial statements

# Cedar Mountain Exploration Inc.

## Statements of Cash Flows
## For the years ended September 30, 2009 and 2008

| | **2009** | 2008 |
|---|---|---|
| | **$** | $ |
| **Cash provided by (used in)** | | |
| **Operating activities** | | |
| Net loss from continuing operations for the year | **(498,868)** | (881,221) |
| Items not affecting cash: | | |
| Stock-based compensation | **29,750** | 372,600 |
| Write down of mineral properties | **-** | 132,121 |
| | **(469,118)** | (376,500) |
| Change in non-cash working capital items | **164,664** | (116,495) |
| Cash used in continuing operations | **(304,454)** | (492,995) |
| Cash used in discontinued operations | **(149,014)** | (3,742) |
| | **(453,468)** | (496,737) |
| **Investing activities** | | |
| Acquisitions (Notes 3 and 5) | **(522,194)** | - |
| Expenditures on mineral properties | **(18,933)** | (486,383) |
| Change in non-cash working capital items | **-** | (81,467) |
| | **(541,127)** | (567,850) |
| **Financing activities** | | |
| Proceeds from issuance of shares | **686,500** | 1,600,000 |
| Share issuance costs | **(21,847)** | (183,439) |
| Advance share subscriptions received | **92,000** | - |
| | **756,653** | 1,416,561 |
| **(Decrease) increase in cash** | **(237,942)** | 351,974 |
| **Cash - beginning of year** | **378,724** | 26,750 |
| **Cash - end of year** | **140,782** | 378,724 |

The non-cash transactions described in notes 3, 5, and 7 have been excluded from the Statements of Cash Flows.

See accompanying notes to the 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 have been prepared using Canadian generally accepted accounting principles on a going concern basis, which assumes the realization of assets and settlement of liabilities in the normal course of business over the next fiscal year. The Company has had a history of negative cash flows from operations and has an accumulated deficit of $1,906,355 as at September 30, 2009, and expects to incur further losses in the development of its business and its mineral properties. These considerations raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from the normal business operations when they become due. The Company cannot provide assurance that it will be successful in doing so.

These 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 sheet at September 30, 2008 included the assets and liabilities of the Company's former wholly owned subsidiary Evoba Mining de Mexico S. de R.L.de C.V. ("Evoba") and the consolidated statement of net loss, comprehensive loss and deficit and cash flows for the year ended September 30, 2008 included the accounts of Evoba from the date of its incorporation (September 30, 2008).

The balance sheet at September 30, 2009 includes only the accounts of Cedar Mountain Exploration Inc. due to the disposal of its subsidiaries on August 27, 2009 (note 3). As such, the financial statement as at and for the year ended September 30, 2009 is not consolidated.

These 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.

**Use of estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The significant areas requiring the use of management estimates relates to the assessment of impairment of value of mineral properties and the fair value of stock base compensation. Actual results could differ from those estimates.

**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 basis based upon the proven reserves available. If the properties are sold or abandoned, these expenditures will be written off.

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

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

**Income taxes**

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

**Mineral exploration tax credits**

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

**Flow-through shares**

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

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

**Stock-based compensation**

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

Consideration paid on the exercise of stock 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 warrants that may not vest, but accounts for forfeitures as they occur.

**Net loss per share**

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

**Impairment of long-lived assets**

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

**Asset retirement obligation**

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

**New accounting policies**

The following new accounting policies have been adopted by the Company effective October 1, 2008:

*General Standards of Financial Statement Presentation*

The Canadian Institute of Chartered Accountants ("CICA") has amended Section 1400 *General Standards of Financial Statement Presentation* of the CICA Handbook to include requirements to assess and disclose the Company's ability to continue as a going concern. This new accounting standard has been adopted by the Company as of October 1, 2008. Disclosure related to the Company's ability to continue as a going concern is included in note 1 to these financial statements.

*Goodwill and Intangible Assets*

The CICA has issued Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. The new accounting standard is effective on the Company's interim and annual financial statements beginning October 1, 2008. This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this standard did not have an impact on the Company's financial statements.

*Inventories*

The CICA has issued section 3031 – Inventories, which provides expanded guidance on the measurement and disclosure requirements for inventories, and is effective on the Company's interim and annual financial statements beginning October 1, 2008. Specifically, the new standard requires that inventories be measured at the lower of cost and net realizable value, and provides more guidance on the determination of cost and its subsequent recognition as expense, including any write-down to net realizable value. The adoption of this new standard has not had an effect on the Company's financial statements.

Future accounting pronouncements

*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.

These new disclosure requirements are not expected to have a material impact on the Company's financial statements.

*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. 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:

| **Year ended September 30** | **2009** | **2008** |
|---|---|---|
| | $ | $ |
| Revenues | 25 | - |
| Expenses | (30,334) | (3,742) |
| Loss on sale of discontinued operations | (338,104) | - |
| Discontinued operations | (368,413) | (3,742) |
| Basic and diluted net loss from discontinued operations per common share | (0.02) | (0.00) |

The following table shows the major classes of assets and liabilities disposed of :

| | |
|---|---|
| Cash | $ 1,204 |
| Mineral properties | 618,387 |
| Non-cash working capital | 18,513 |
| | $ 638,104 |

## 4. Cash

Cash consists of cash on deposit with financial institutions. The repayment of monies on deposit, Guaranteed Investment Certificates and interest payable on those monies is guaranteed by the Crown in right of Alberta.

## 5. Mineral properties

| | British Columbia, Canada | | | Mexico | |
|---|---|---|---|---|---|
| | Cedar Creek<br>$ | Lemon Lake<br>$ | Venus<br>$ | Jimenez del Teul & País del Elephante<br>$ | Total<br>$ |
| **Balance – September 30, 2007** | **253,163** | **120,606** | **66,117** | **-** | **439,886** |
| Acquisition | - | (657) | - | - | (657) |
| Claims and land use | 2,559 | 1,655 | 266 | - | 4,480 |
| Geological consulting | 147,245 | 14,593 | 10,591 | - | 172,429 |
| Geophysics | 600 | - | - | - | 600 |
| Analysis | 138,655 | 1,239 | 1,998 | - | 141,892 |
| Fieldwork | 114,673 | 5,139 | 3,336 | - | 123,148 |
| Mineral tax credits | (80,250) | (4,194) | (3,186) | - | (87,630) |
| **Balance – September 30, 2008** | **576,645** | **138,381** | **79,122** | **-** | **794,148** |
| Acquisition | - | - | - | 503,428 | 503,428 |
| Claims and land use | 1,652 | 613 | 366 | 67,465 | 70,096 |
| Geological consulting | 7,029 | 2,849 | 2,504 | 44,646 | 57,028 |
| Analysis | - | 3,262 | 20 | 2,848 | 6,130 |
| Fieldwork | 385 | 219 | 34 | - | 638 |
| 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** |
| Acquisition | 134,229 | 113,920 | 62,631 | - | 310,780 |
| Claims and land use | 4,211 | 7,925 | 4,118 | - | 16,254 |
| Exploration | 527,521 | 27,673 | 18,483 | - | 573,677 |
| Mineral tax credits | (122,556) | (8,204) | (5,553) | - | (136,313) |
| **Balance – September 30, 2009** | **543,405** | **141,314** | **79,679** | **-** | **764,398** |

*Cedar Creek, Venus, and Lemon Lake*

During the year ended September 30, 2008, the Company agreed to purchase geological data on its mineral properties in British Columbia at a cost of $322,155 for exploration work conducted by an arm's length party that was consistent with recommendations of the independent comprehensive technical report filed on April 27, 2007 on SEDAR. One of the mineral claims comprising the Cedar Creek property is subject to a 2.5% net smelter royalty ("NSR") on commercial mineral production in favour of an unrelated third party. The Company has the option to purchase the interest in the NSR for $500,000 per 1% interest.

*Jimenez del Teul and País del Elephante*

On April 28, 2008, the Company announced that it had entered into two letters of intent ("LOI's") with Sterling Mexico whereby Sterling Mexico had granted Cedar the option to acquire a 100% interest in the Jimenez del Tuel and Venaditas-Chapis properties in the State of Zacatecas in central Mexico. Under the terms of the LOI's, the Company was obligated to make an aggregate cash payment of USD 50,000 upon signing.

On August 1, 2008, the Company announced that it had terminated the LOI's with Sterling Mexico. As a result, $132,121 in acquisition and due diligence costs, were written off.

On October 1, 2008, the Company acquired various mineral properties in the State of Zacatecas in central Mexico totalling approximately 14,000 ha, for total consideration of $265,740.

On October 15, 2008, the Company acquired additional mineral properties in the State of Zacatecas in central Mexico totalling approximately 900 ha, for consideration of $295,250.

Subsequent to the two transactions described above, the Company discovered certain future obligations including spending commitments and option payments associated with certain properties acquired on October 1 and October 15, 2008. The Company negotiated a cash settlement with the vendors of these properties in the amount of $187,653 which was recorded to offset the original acquisition costs.

On December 21, 2008, the Company acquired Sterling Mexico (note 3) which included 5,400 ha of mineral properties in the State of Zacatecas in central Mexico. These properties have been assigned an acquisition cost of $130,091 (note 3).

On August 27, 2009, the Company divested of its interests in Sterling Mexico and Evoba, including the Company's interest in the associated mineral properties (note 3).

## 6. Income taxes

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

| | **2009** | **2008** |
|---|---|---|
| | $ | $ |
| Expected tax recovery at a rate of 29.70% (2008 – 31.50%) | 148,164 | 278,763 |
| Increase (decrease) resulting from: | | |
| Effect of tax rate changes | 35,695 | 34,815 |
| Non-deductible expenses | (9,770) | (116,024) |
| Change in valuation allowance | (174,089) | (197,554) |
| Income tax benefit (expense) | - | - |

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

| | 2009 | 2008 |
|---|---|---|
| | $ | $ |
| Mineral properties | 8,030 | 4,727 |
| Non-capital losses carried forward | 297,088 | 158,459 |
| Capital loss carried forward | 43,504 | - |
| Share issuance and incorporation costs | 51,699 | 63,046 |
| Valuation allowance | (400,321) | (226,232) |
| Net recognized future income tax asset | - | - |

The Company has Canadian non-capital losses of $1,188,352 for income tax purposes, the benefit of which have not been recognized, which expire as follows:

| Year of origin | Non-capital loss | Year of expiry |
|---|---|---|
| | $ | |
| 2006 | 17,461 | 2025 |
| 2007 | 166,137 | 2026 |
| 2008 | 7,126 | 2027 |
| 2008 | 429,488 | 2028 |
| 2009 | 568,140 | 2029 |
| | 1,188,352 | |

## 7. Share capital

Authorized:
Unlimited number of common shares

| Year ended September 30 | 2009 | | 2008 | |
|---|---|---|---|---|
| Issued: | Common Shares | Amount | Common Shares | Amount |
| | # | $ | # | $ |
| Balance – beginning of year | **13,985,088** | **1,839,166** | 9,985,088 | 617,911 |
| Shares issued for cash | **4,576,669** | **686,500** | 4,000,000 | 1,600,000 |
| Shares issued for commissions | **6,667** | **1,000** | - | - |
| Share issuance costs | **-** | **(22,847)** | - | (255,439) |
| Deferred share issuance costs | **-** | **-** | - | (123,306) |
| Balance – end of year | **18,568,424** | **2,503,819** | 13,985,088 | 1,839,166 |

On November 6, 2008, the Company announced that it had closed the first tranche of a private placement, originally announced on October 22, 2008, of 2,091,670 units for gross proceeds of $313,750. Each unit, sold for $0.15 per unit, consisted of one common share of the Company and one common share purchase warrant ("Warrant"), where each Warrant is exercisable into one common share at a price of $0.25 per share. Warrants issued in the first tranche of the private placement will expire on November 6, 2009.

On December 19, 2008, the Company announced that it had closed the second and final tranche of the private placement announced on October 22, 2008, of an additional 2,484,999 units for gross proceeds of $372,750. Finders acting in connection with the private placement received a finders' fee in the total amount of $8,925 and 6,667 Units. Warrants issued with the second tranche of the private placement will expire on December 19, 2009.

On October 18, 2007, the Company closed its initial public offering of 4,000,000 common shares at a price of $0.40 per common share raising gross proceeds of $1.6 million (the "Offering"). PI Financial Corp. (the "Agent") acted as agent in connection with the Offering. The common shares were listed and posted for trading on the TSX Venture Exchange under the stock symbol "CED" at the opening of trading on October 29, 2007.

The Company paid the Agent a cash commission of $160,000 representing 10% of the gross proceeds raised, a corporate finance fee in the amount of $25,000, and paid all reasonable expenses of the Agent. These expenses were deducted from the proceeds of the Offering. The Agent also received 400,000 compensation options ("Agent Options") equal in number to 10% of the number of common shares sold under the Offering. The Agent's Options are exercisable for $0.40 per share and expire on October 18, 2009. Upon closing of the IPO, the Company reclassified $123,306 in deferred share issuance costs to share capital.

Warrants

The following table summarizes activity related to warrants:

| **Year ended September 30** | | **2009** | | **2008** |
|---|---|---|---|---|
| | **Number of warrants** | **Weighted average exercise price** | **Number of warrants** | **Weighted average exercise price** |
| | # | $ | # | $ |
| Balance – beginning of year | - | - | - | - |
| Granted | 4,583,336 | 0.25 | - | - |
| Balance – end of year | 4,583,336 | 0.25 | - | - |

The following table summarizes information about warrants outstanding:

| As at September 30 | | 2009 | | | 2008 |
|---|---|---|---|---|---|
| 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 |
| 2,091,670 | 0.25 | 0.35 | - | - | - |
| 2,491,666 | 0.25 | 0.50 | - | - | - |
| 4,583,336 | 0.25 | 0.43 | - | - | - |

Agent options

The following table summarizes activity related to agent options:

| Year ended September 30 | | 2009 | | 2008 |
|---|---|---|---|---|
| | Number of agent options # | Weighted average exercise price $ | Number of agent options # | Weighted average exercise price $ |
| Balance – beginning of year | 400,000 | 0.40 | - | - |
| Granted | - | - | 400,000 | 0.40 |
| Balance – end of year | 400,000 | 0.40 | 400,000 | 0.40 |

The following table summarizes information about agent options outstanding:

| As at September 30 | | 2009 | | | 2008 |
|---|---|---|---|---|---|
| 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 |
| 400,000 | 0.40 | 0.1 | 400,000 | 0.40 | 1.0 |
| 400,000 | 0.40 | 0.1 | 400,000 | 0.40 | 1.0 |

During the year ended September 30, 2008, the Company issued Agent Options to acquire up to 400,000 common shares of the Company at an exercise price of $0.40 per share up to October 18, 2009. The Company has recorded stock-based compensation relating to the Agent Options granted in the amount of $72,000, at a fair value of $0.18 per Agent Option, as a cost of share issuance and an increase to contributed surplus.

The stock-based compensation has been determined based on the estimated fair value of the Agent Options at the grant date. The fair value of each Agent Option granted is estimated on the date of grant using the Black-Scholes option pricing model.

The assumptions used in the calculation of the fair value of the Agent Options issued in the year ended September 30, 2008 include: a risk-free interest rate of 4.67%; expected hold prior to exercise of 2 years; expected volatility of 80%; and a dividend yield per share of 0%. The Agent Options were issued with an exercise price equal to the market price on the grant date.

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:

| **Year ended September 30** | | **2009** | | **2008** |
|---|---|---|---|---|
| | **Number of options** | **Weighted average exercise price** | **Number of options** | **Weighted average exercise price** |
| | # | $ | # | $ |
| Balance – beginning of year | 1,380,000 | 0.40 | - | - |
| Granted | 575,000 | 0.15 | 1,380,000 | 0.40 |
| Expired/cancelled | (100,000) | 0.40 | - | - |
| Balance – end of year | 1,855,000 | 0.32 | 1,380,000 | 0.40 |

The following table summarizes information about stock options outstanding:

| **As at** | | **September 30, 2009** | | | **September 30, 2008** |
|---|---|---|---|---|---|
| **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 | 3.1 | 1,380,000 | 0.40 | 4.3 |
| 525,000 | 0.15 | 4.3 | - | - | - |
| 50,000 | 0.12 | 4.9 | - | - | - |
| 1,855,000 | 0.32 | 3.5 | 1,380,000 | 0.40 | 4.3 |

During the year ended September 30, 2009, the Company granted 575,000 (2008 - 1,380,000) stock options with a weighted average exercise price of $0.15 (2008 - $0.40) per share to directors, officers, and consultants of the Company under the terms of the Plan. All of the options granted vested immediately upon issue.

The Company has recorded stock-based compensation expense relating to the options granted in the amount of $29,750 (2008 - $372,600), or a fair value of $0.05 (2008 - $0.27) per option.

The stock-based compensation expense has been determined based on the estimated fair value of the stock options at the grant date. The fair value of each stock 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 the options issued in the period include: a risk-free interest rate of 1.81% (2008 - 4.65%); expected hold prior to exercise of 5 years (2008 – 5 years); expected volatility of 80% (2008 – 80%); and a dividend yield per share of 0% (2008 – 0%). The stock options were issued with an exercise price equal to the market price on the grant date.

## 8. Contributed surplus

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

| **Year ended** | **September 30, 2009** | **September 30, 2008** |
|---|---|---|
| | $ | $ |
| Balance – beginning of year | 444,600 | - |
| Agent options granted | - | 72,000 |
| Stock options granted | 29,750 | 372,600 |
| Balance – end of year | **474,350** | **444,600** |

## 9. Financial instruments and capital disclosures

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 $140,782 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 September 30, 2009, Cedar's working capital is $307,416, 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. See note 12.

## 10. Related party transactions

During the year ended September 30, 2009, management fees of $112,500 (2008 - $111,000) were paid to officers and directors or companies controlled by officers and directors of the Company. Capitalized geological consulting fees of $1,753 (2008 - $14,722) were paid to a company controlled by a director.

During the year ended September 30, 2008, the Company paid capitalized legal fees in the amount of $5,283 to an officer of the Company relating to the acquisition of the Company's mineral properties in British Columbia, Canada. The Company also paid legal fees in the amount of $9,600 and share issuance costs of $17,733 to the same officer for work related to the Company's IPO. These costs were incurred prior to the individual being appointed an officer of the Company.

At September 30, 2009, the Company had outstanding accounts payable to directors and officers or companies controlled by directors and officers aggregating $21,093 (2008 – $12,906).

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

## 11. Comparative Figures

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

## 12. Subsequent events

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.

At September 30, 2009, the Company had received $92,000 in funds related to the Offering in advance of closing of the Offering on October 1, 2009. This amount is included in cash, with a corresponding current liability labelled advance share subscriptions received. Upon closing of the Offering, this liability, as well as the remainder of the proceeds raised in the offering, was reclassified to share capital.