Cedar Mountain Exploration Inc.

Consolidated Financial Statements
For the years ended September 30, 2008 and 2007

AUDITORS' REPORT

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

We have audited the consolidated balance sheets of **Cedar Mountain Exploration Inc.** as at September 30, 2008 and 2007 and the consolidated statements of net loss, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2008 and 2007, 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
October 24, 2008 (except as to Note 10(d)
which is as of December 18, 2008)

Cedar Mountain Exploration Inc.
Consolidated Balance Sheets
As at September 30, 2008 and 2007

	2008	2007
	$	$
Assets		
Current		
Cash	**378,724**	26,750
Accounts receivable	**100,595**	19,804
Prepaid expenses and deposits	**21,900**	2,000
	501,219	48,554
Deferred share issuance costs (Note 6)	**-**	123,306
Mineral properties (Note 4)	**794,148**	439,886
	1,295,367	611,746
Liabilities		
Current		
Accounts payable and accrued liabilities	**50,675**	147,946
Shareholders' equity		
Share capital (Note 6)	**1,839,166**	617,911
Contributed surplus (Note 7)	**444,600**	-
Deficit	**(1,039,074)**	(154,111)
	1,244,692	463,800
	1,295,367	611,746

Approved on behalf of the Board

Signed "*John Williamson*" Director

Signed "*Sean Mager*" Director

See accompanying notes to consolidated financial statements

Cedar Mountain Exploration Inc.
Consolidated Statements of Net Loss, Comprehensive Loss and Deficit
For the years ended September 30, 2008 and 2007

	2008	2007
	$	$
Expenses		
Office and administration	**110,449**	19,093
Marketing and investor relations	**73,294**	7,803
Professional fees	**29,450**	43,156
Management fees	**193,200**	94,000
Stock-based compensation (Note 6)	**372,600**	-
	(778,993)	(164,052)
Other income (expenses)		
Interest income	**26,151**	-
Write down of mineral properties (Note 4)	**(132,121)**	-
Net loss before income taxes	**(884,963)**	(164,052)
Future income tax benefit (Note 5)	**-**	28,172
Net loss and comprehensive loss for the year	**(884,963)**	(135,880)
Deficit - beginning of year	**(154,111)**	(18,231)
Deficit - end of year	**(1,039,074)**	(154,111)
Basic and diluted net loss per common share	**(0.06)**	(0.01)
Weighted average number of common shares outstanding	**13,826,143**	9,541,139

See accompanying notes to consolidated financial statements

Cedar Mountain Exploration Inc.

Consolidated Statements of Cash Flows

For the years ended September 30, 2008 and 2007

	2008 $	2007 $
Cash provided by (used in)		
Operating activities		
Net loss for the year	**(884,963)**	(135,880)
Items not affecting cash:		
Stock-based compensation	**372,600**	-
Write down of mineral properties	**132,121**	-
Future income tax expense (benefit)	**-**	(28,172)
	(380,242)	(164,052)
Change in non-cash working capital items	**(116,495)**	110,850
	(496,737)	(53,202)
Investing activities		
Expenditures on mineral properties	**(486,383)**	(141,608)
Change in non-cash working capital items	**(81,467)**	-
	(567,850)	(141,608)
Financing activities		
Proceeds from issuance of shares	**1,600,000**	316,002
Share issuance costs	**(183,439)**	(10,167)
Deferred share issuance costs	**-**	(123,306)
	1,416,561	182,529
Increase (decrease) in cash	**351,974**	(12,281)
Cash - beginning of year	**26,750**	39,031
Cash - end of year	**378,724**	26,750

The non-cash transaction described in Note 6 has been excluded from the Statements of Cash Flows.

See accompanying notes to consolidated 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") (Note 6) and began trading on the TSX-V 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 consolidated 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. Accounting policies

Principles of consolidation and preparation of financial statements

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

The consolidated balance sheets include the assets and liabilities of the Company's wholly owned subsidiary Evoba Mining de Mexico S. de R.L.de C.V. ("Evoba"). The consolidated statements of net loss, comprehensive loss and deficit and cash flows for the year ended September 30, 2008 include the accounts of Evoba from the date of its incorporation (September 30, 2008).

The consolidated 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 consolidated 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 consolidated 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. The loss on impairment written off is 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 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 the 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.

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.

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.

Financial instruments

Effective October 1, 2006, the Company adopted the following new or revised CICA Handbook Sections:

a) Section 1530 – Comprehensive Income;
b) Section 3251 – Equity;
c) Section 3855 – Financial Instruments – Recognition and Measurement;
d) Section 3861 – Financial Instruments – Disclosure and Presentation; and
e) Section 3865 – Hedges.

These standards require that the Company initially recognize all arms length financial assets and financial liabilities on the consolidated balance sheet at their fair values. Subsequent to initial recognition, financial instruments are measured at fair value, amortized cost or cost depending on the financial instrument classification.

Regular-way 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 loss in the period in which the cost arises.

New accounting standards and policies

Effective October 1, 2007, the Company adopted the following new or revised CICA Handbook Sections:

a) Section 1535 – Capital Disclosures;
b) Section 3862 – Financial Instruments - Disclosures, and;
c) Section 3863 – Financial Instruments – Presentation.

These new standards place increased emphasis on the disclosure requirements relating to financial instruments and an entity's capital. Specifically, the new sections establish standards for:

- disclosing information about an entity's capital and how it is managed;
- disclosing an entity's objectives, policies, and processes for managing capital, whether an entity has complied with capital requirements, and, if it has not complied, the consequences of such compliance;
- disclosure for the assessment of the significance of financial instruments for an entity's financial position and performance and of the nature and extent of risks arising from financial instruments to which an entity is exposed and how the entity manages those risks, and;
- presentation of financial instruments and non-financial derivatives.

Additional disclosures required pursuant to the adoption of these new standards have been included in Note 8.

Also effective October 1, 2007, the Company has adopted CICA Handbook Section 1506 – Accounting changes. This new standard prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates, and corrections of errors. Under this new standard, when an entity has not applied a new primary source of GAAP that has been issued but is not yet effective, the entity shall disclose this fact and information relevant to assessing the potential impact that application of the new primary source of GAAP will have on the entity's financial statements in the period of initial application, where this information is known or reasonably estimable. Additional disclosure resulting from the adoption of this new standard is reflected in "Future accounting changes" below.

Future accounting changes

The CICA has amended Section 1400 - General standards of financial statement presentation, effective on the Company's interim and annual financial statements beginning October 1, 2008, to include requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of this new section is not expected to have an impact on the Company's consolidated financial statements.

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 consolidated financial statements beginning on August 1, 2011. The Company is currently evaluating the impact of the adoption of IFRS.

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 Company is currently evaluating the impact of this standard on its consolidated financial statements.

3. 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.

4. Mineral properties

	Cedar Creek $	Lemon Lake $	Venus $	Total $
Balance - September 30, 2006	**132,190**	**102,755**	**63,333**	**298,278**
Acquisition	2,039	12,961	-	15,000
Claims and land use	-	4,518	2,784	7,302
Geological consulting	35,368	-	-	35,368
Airborne geophysics	60,000	-	-	60,000
Analysis	8,944	-	-	8,944
Fieldwork	14,622	372	-	14,994
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**

On March 30, 2006, the Company signed a purchase agreement with An-Kobra Resources Inc. ("An-Kobra") to acquire a 100% interest in a number of mineral claims located in the Province of British Columbia. In order to acquire this interest, the Company issued 2,904,976 common shares to An-Kobra for a deemed value of $290,498. A third party will retain a two and a half percent (2.5%) industry standard net smelter royalty ("NSR") on the Cedar Creek property. The Company has the option and right to purchase the NSR at any time for $500,000 per 1% interest.

On October 25, 2006, the Company signed a purchase agreement with a prospector to acquire a 100% interest in a number of mineral claims adjacent to the Cedar Creek and Lemon Lake properties. In order to acquire this interest, the Company made a cash payment of $15,000 to the prospector.

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.

On April 28, 2008, the Company announced that it had entered into two letters of intent ("LOI's") with Sterling Mining de Mexico S.A. de C.V ("Sterling") whereby Sterling 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. Zacatecas state is host to several world class mineral deposits including the recently discovered San Nicolas (VMS), Penasquito and Camino Rojo deposits.

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. As a result, $132,121 in acquisition and due diligence costs, were written off.

5. 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:

	2008	2007
	$	$
Expected tax recovery at a rate of 31.50% (2007 – 17.62%)	278,763	28,906
Increase (decrease) resulting from:		
Effect of tax rate changes	34,815	21,703
Non-deductible expenses	(116,024)	-
Change in valuation allowance	(197,554)	(22,437)
Income tax benefit (expense)	-	28,172

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

	2008	2007
	$	$
Mineral properties	4,727	(31,000)
Non-capital losses carried forward	158,459	56,915
Share issuance and incorporation costs	63,046	2,763
Valuation allowance	(226,232)	(28,678)
Net recognized future income tax asset	-	-

The Company has Canadian non-capital losses of $633,834 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	2026
2007	166,137	2027
2008	450,236	2028
	633,834	

6. Share capital

Authorized:
Unlimited number of common shares

Year ended	September 30, 2008		September 30, 2007	
Issued:	Common Shares	Amount	Common Shares	Amount
	#	$	#	$
Balance – beginning of year	9,985,088	617,911	7,905,076	340,248
Shares issued for cash	4,000,000	1,600,000	2,080,012	316,002
Share issuance costs	-	(255,439)	-	(10,167)
Deferred share issuance costs	-	(123,306)	-	-
Future income taxes	-	-	-	(28,172)
Balance – end of year	**13,985,088**	**1,839,166**	9,985,088	617,911

On October 13, 2006, the Company closed a non-brokered insider private placement for 1,000,000 flow-through common shares (“FT shares”) at a price of $0.10 per FT share for aggregate proceeds of $100,000. The Company was required to incur $100,000 of qualifying expenditures to be renounced to the holders of the 1,000,000 FT shares, and has since met that commitment. The expenditures were renounced effective December 31, 2006 and the future income tax effect of this renouncement has been recorded.

On February 15, 2007, the Company completed a private placement for 1,080,012 common shares at a price of $0.20 per common share for aggregate proceeds of $216,002.

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.

Agent options

The following table summarizes activity related to agent options:

Year ended September 30	**2008**		**2007**	
	Number of agent options #	**Weighted average exercise price** $	**Number of agent options** #	**Weighted average exercise price** $
Balance – beginning of year	-	-	-	-
Granted	400,000	0.40	-	-
Balance – end of year	400,000	0.40	-	-

The following table summarizes information about agent options outstanding:

Year ended September 30, 2008			**Year ended September 30, 2007**		
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	1.0	-	-	-
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 (2007 – nil) 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 (2007 – nil), 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 period 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 new stock option plan (the "Plan") for directors, officers, employees, and consultants effective upon the closing of the IPO, 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	**2008**		**2007**	
	Number of options #	**Weighted average exercise price** $	**Number of options** #	**Weighted average exercise price** $
Balance – beginning of year	-	-	-	-
Granted	1,380,000	0.40	-	-
Balance – end of year	1,380,000	0.40	-	-

The following table summarizes information about stock options outstanding:

Year ended September 30, 2008			**Year ended September 30, 2007**		
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
1,380,000	0.40	4.3	-	-	-
1,380,000	0.40	4.3	-	-	-

During the year ended September 30, 2008, the Company granted 1,380,000 stock options exercisable at $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, and an increase to contributed surplus, relating to the options granted in the amount of $372,600 (2007 – nil), or a fair value of $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 assumptions used in the calculation of the fair value of the options issued in the period include: a risk-free interest rate of 4.65%; expected hold prior to exercise of 5 years; expected volatility of 80%; and a dividend yield per share of 0%. The stock options were issued with an exercise price equal to the market price on the grant date.

7. Contributed surplus

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

Year ended	September 30, 2008	September 30, 2007
	$	$
Balance – beginning of year	-	-
Agent options granted	72,000	-
Stock options granted	372,600	-
Balance – end of year	**444,600**	-

8. Financial instruments

Financial instrument classification

The Company's financial instruments recognized on the consolidated balance sheet consist of cash, accounts receivable and accounts payable and accrued liabilities.

Upon initial recognition, the Company has designated its cash as held for trading, and accordingly it is recognized on the consolidated 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 has been classified as loans and receivables, and is 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 the Company's financial instruments approximate their carrying values due to their short-term nature.

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

Risk management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. It is management's opinion that the Company is not subject to significant interest, currency, or credit risks arising from its use of financial instruments or capital.

The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain title to and explore its mineral properties. The capital structure of the Company consists of cash and share capital.

9. Related party transactions

During the year ended September 30, 2008, management fees of $111,000 (2007 – $64,000) were paid to officers and directors or companies controlled by officers and directors of the Company. Capitalized geological consulting fees of $14,722 (2007 – nil) were paid to a company controlled by a director.

The Company paid capitalized legal fees in the amount of $5,283 (2007 – nil) 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 (2007-nil) and share issuance costs of $17,733 (2007 – nil) 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.

All amounts were fully paid as at September 30, 2008 and 2007.

At September 30, 2008, the Company had an outstanding payable to a Company with common officers and directors in the amount of $12,906 (2007-nil) for reimbursement of shared office and administrative costs. This amount was fully paid subsequent to year end.

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.

10. Subsequent events

a) On October 1, 2008, the Company acquired various mineral properties in the State of Zacatecas in central Mexico totalling approximately 14,000 hectares from an arm's length party for consideration of USD 250,000.

b) On October 15, 2008, the Company acquired additional mineral properties totalling approximately 900 hectares and an interest in a production facility in the State of Zacatecas, Mexico. This acquisition was completed for consideration of USD 250,000.

c) On October 22, 2008, the Company announced that it intended to complete a non-brokered private placement of up to 7,000,000 units (each a "Unit") at a price of $0.15 per Unit for gross proceeds of up to $1,050,000. Each Unit consist of one common share and one common share purchase warrant. Each warrant is exercisable into one common share at a price of $0.25 per common share for a period of 12 months from the date of closing.

d) On December 18, 2008, the Company acquired 99% of the outstanding shares of Sterling Mining de Mexico S.A. de C.V. ("Sterling Mexico") from Sterling Mining Company, an arm's length party. The assets of Sterling Mexico include mineral properties in the State of Zacatecas, Mexico totalling approximately 5,400 hectares. The acquisition was completed for total consideration of USD 222,000, of which USD 100,000 was previously advanced on November 5, 2008 under an agreement between Sterling and the Company which provided Sterling Mexico's mineral properties as security against the advance. This acquisition will be accounted for using the purchase method. The Company is in the process of evaluating the assets acquired and liabilities assumed in this transaction and is not able provide an allocation as of the date of these consolidated financial statements.

11. Comparative Figures

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