



**GreatWestern**  
MINERALS GROUP LTD

## CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2010  
(Canadian dollars)



**GreatWestern**  
TECHNOLOGIES INC

**LCM**  
less common metals



### **Management's Responsibility for Consolidated Financial Statements**

The accompanying consolidated financial statements of Great Western Minerals Group Ltd. are the responsibility of management and have been approved by the Board of Directors.

Management, in conformity with Canadian generally accepted accounting principles, has prepared the consolidated financial statements. The consolidated financial statements include some amounts that are based on best estimates and judgments.

The management of the Company, in furtherance of the integrity and objectivity of data in the consolidated financial statements, has developed and maintains a system of internal accounting controls. Management believes the internal accounting controls provide reasonable assurance that financial records are reliable and form a proper basis for preparation of consolidated financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies that govern ethical business conduct.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its audit committee, consisting entirely of outside directors. The audit committee reviewed the Company's annual consolidated financial statements and recommended their approval to the Board of Directors. The shareholders' auditors have full access to the audit committee, with or without management being present.

The shareholders' auditors, KPMG LLP, Chartered Accountants, in accordance with Canadian generally accepted audit standards, have examined these consolidated financial statements and their independent professional opinion on the fairness of the consolidated financial statements is attached.

"James G. Davidson, CA"  
**Chief Financial Officer**

Saskatoon, Saskatchewan



**KPMG LLP**  
**Chartered Accountants**  
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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Great Western Minerals Group Ltd.

We have audited the accompanying consolidated financial statements of Great Western Minerals Group Ltd. ("the Company"), which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of loss and comprehensive income (loss), shareholders' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Great Western Minerals Group as at December 31, 2010, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



*Other Matters*

The consolidated financial statements of Great Western Minerals Group for the year ended December 31, 2009 were audited by another auditor who expressed an unmodified opinion on those statements in their report dated March 22, 2010.

*KPMG LLP*

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Chartered Accountants

March 30, 2011  
Saskatoon, Canada

**GREAT WESTERN MINERALS GROUP LTD.**

**CONSOLIDATED BALANCE SHEETS**

**DECEMBER 31**

(Canadian dollars)

	<u>2010</u>	<u>2009</u>
<b><u>ASSETS</u></b>		
<b>Current Assets</b>		
Cash	\$ 9,181,458	\$ 1,164,764
Cash in trust (Note 3)	14,880,761	-
Accounts receivable	3,956,785	1,834,675
Inventories	1,987,887	2,212,461
Deposits and prepaid expenses	322,284	369,174
	<u>30,329,175</u>	<u>5,581,074</u>
Investment in Rare Earth Extraction Co (Note 3)	5,501,552	-
Investment in Vaaldiam Mining Inc. (Note 4)	156,439	225,633
Mineral properties (Note 5)	17,029,557	19,826,547
Property, plant and equipment (Note 6)	2,263,211	3,317,060
Intangible assets (Note 7)	1,275,509	1,445,576
Goodwill (Note 7)	2,660,153	2,660,153
	<u>\$ 59,215,596</u>	<u>\$ 33,056,043</u>
<b><u>LIABILITIES</u></b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 2,008,428	\$ 2,924,280
Demand loan (Note 8)	1,499,956	596,635
Income taxes payable	233,002	27,845
Current portion of long-term debt (Note 9)	-	1,215,174
	<u>3,741,386</u>	<u>4,763,934</u>
Deferred gain on sale of property (Note 13)	-	178,051
Future income taxes (Note 14)	748,807	860,453
	<u>4,490,193</u>	<u>5,802,438</u>
<b><u>SHAREHOLDERS' EQUITY</u></b>		
Share capital (Note 11)	78,331,506	49,212,355
Warrants (Note 11)	15,599,177	1,315,121
Contributed surplus (Note 11)	4,989,912	4,114,807
Cumulative other comprehensive loss	(3,166,514)	(2,693,285)
Deficit	(41,028,678)	(24,695,393)
	<u>54,725,403</u>	<u>27,253,605</u>
	<u>\$ 59,215,596</u>	<u>\$ 33,056,043</u>

Subsequent events (Note 21)

See accompanying notes

Approved by the Board

"Ian McNaughton"  
Director

"Jim Engdahl"  
President and CEO

**GREAT WESTERN MINERALS GROUP LTD.**

**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE INCOME (LOSS)**

**FOR THE YEARS ENDED DECEMBER 31**

(Canadian dollars)

	<u>2010</u>	<u>2009</u>
Sales	\$ 15,139,682	\$ 11,994,734
Cost of sales	<u>10,648,831</u>	<u>8,959,487</u>
<b>Gross margin</b>	<b><u>4,490,851</u></b>	<b><u>3,035,247</u></b>
<b>Expenses</b>		
General and administration	1,800,441	1,438,389
Wages and benefits	3,827,445	2,887,383
Stock based compensation	2,135,569	2,175,262
Property research	91,150	30,757
Professional fees	435,241	460,809
Investor relations	584,348	224,920
Other direct overhead	<u>1,331,885</u>	<u>1,083,523</u>
	<b><u>10,206,079</u></b>	<b><u>8,301,043</u></b>
<b>Loss before undernoted items</b>	<b>(5,715,228)</b>	<b>(5,265,796)</b>
Depreciation	(1,043,281)	(1,018,177)
Interest expense (Note 10)	(1,488,422)	(1,212,591)
Interest income	375,377	407,621
Other income	239,617	113,480
Exchange loss	(230,676)	(62,615)
Flow through taxes	-	(500,000)
Gain (loss) on disposal of property, plant and equipment	(257,758)	191,340
Write down of mineral properties	<u>(8,064,478)</u>	<u>(10,600)</u>
<b>Loss before income taxes</b>	<b>(16,184,849)</b>	<b>(7,357,338)</b>
Current income tax expense	(260,082)	8,337
Future income tax recovery (Note 14)	<u>111,646</u>	<u>394,026</u>
<b>Net loss</b>	<b><u>(16,333,285)</u></b>	<b><u>(6,954,975)</u></b>
Other comprehensive income (loss):		
Unrealized loss on available for sale investments	(69,194)	(5,941)
Translation adjustment	<u>(404,035)</u>	<u>538,107</u>
<b>Other comprehensive income (loss)</b>	<b><u>(473,229)</u></b>	<b><u>532,166</u></b>
<b>Net loss and comprehensive income (loss)</b>	<b><u><u>(16,806,514)</u></u></b>	<b><u><u>(6,422,809)</u></u></b>
<b>Basic and fully diluted loss per share</b>	<b><u>\$ (0.062)</u></b>	<b><u>\$ (0.042)</u></b>
<b>Weighted average number of shares outstanding</b>	<b><u>262,149,841</u></b>	<b><u>164,414,152</u></b>

**GREAT WESTERN MINERALS GROUP LTD.**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

**FOR THE YEARS ENDED DECEMBER 31**

(Canadian dollars)

	<u>2010</u>	<u>2009</u>
<b>Share Capital</b>		
Beginning of year balance	\$ 49,212,355	\$ 39,243,321
Exercise of stock options	371,475	81,000
Exercise of warrants	431,457	6,323,046
Shares issued on conversion of debentures	727,552	5,298,834
Shares issued for commitment fee on subordinated debentures	1,012,500	-
Equity issuances	30,039,443	264,590
Renunciation of exploration expenses	-	(972,630)
Share issue costs	(3,463,276)	(1,025,806)
End of year balance	<u>\$ 78,331,506</u>	<u>\$ 49,212,355</u>
<b>Warrants</b>		
Beginning of year balance	\$ 1,315,121	\$ 1,119,525
Grant of warrants	15,003,137	223,628
Exercise of warrants	(719,081)	(28,032)
End of year balance	<u>\$ 15,599,177</u>	<u>\$ 1,315,121</u>
<b>Options</b>		
Beginning of year balance	\$ 4,114,807	\$ 2,053,064
Grant of options	2,135,569	2,175,262
Exercise of options	(1,260,464)	(113,519)
End of year balance	<u>\$ 4,989,912</u>	<u>\$ 4,114,807</u>
<b>Cumulative Other Comprehensive Loss</b>		
Beginning of year balance	\$ (2,693,285)	\$ (3,225,451)
Unrealized loss on available for sale investments	(69,194)	(5,941)
Translation adjustment	(404,035)	538,107
End of year balance	<u>\$ (3,166,514)</u>	<u>\$ (2,693,285)</u>
<b>Deficit</b>		
Beginning of year balance	\$ (24,695,393)	\$ (17,740,418)
Net loss	(16,333,285)	(6,954,975)
End of year balance	<u>\$ (41,028,678)</u>	<u>\$ (24,695,393)</u>
<b>End of year shareholders' equity</b>	<u><u>\$ 54,725,403</u></u>	<u><u>\$ 27,253,605</u></u>

**GREAT WESTERN MINERALS GROUP LTD.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31**

(Canadian dollars)

	<u>2010</u>	<u>2009</u>
<b>Cash flows from operating activities</b>		
Net loss	\$ (16,333,285)	\$ (6,954,975)
Items not affecting cash		
Depreciation & amortization	1,043,281	1,018,177
Future income tax recovery	(111,646)	(394,026)
Stock based compensation	2,135,569	2,175,262
Gain on disposal of property, plant and equipment	(5,129)	(191,340)
Deferred gain on sale of property	(178,051)	-
Write down of mineral properties	8,064,478	10,600
Write down of property, plant and equipment	262,887	-
Loan commitment fees paid in shares	1,012,500	-
Interest on convertible debenture paid with shares	20,923	17,103
Foreign exchange loss (gain) on conv debenture paid with shares	9,175	(419,081)
Net changes in non-cash working capital items related to operations:	<u>(2,882,029)</u>	<u>(92,720)</u>
	<b><u>(6,961,327)</u></b>	<b><u>(4,831,000)</u></b>
<b>Cash flows from investing activities</b>		
Additions to mineral properties	(5,166,613)	(1,576,250)
Purchase of property, plant and equipment	(100,470)	(15,138)
Cash in trust (Note 3)	(14,880,761)	-
Investment in Rare Earth Extraction Co	(5,501,552)	-
Proceeds on sale of property, plant and equipment	-	1,277,945
	<b><u>(25,649,396)</u></b>	<b><u>(313,443)</u></b>
<b>Cash flows from financing activities</b>		
Issuance of share capital, net of costs	40,211,718	6,063,062
Proceeds of issuance of long-term debt	-	816,666
Proceeds of issuance of subordinated debentures	5,000,000	-
Repayment of subordinated debentures	(5,000,000)	(500,431)
Repayment of long term debt	(487,622)	-
Change in demand loan	903,321	(717,034)
	<b><u>40,627,417</u></b>	<b><u>5,662,263</u></b>
<b>Net increase in cash during the period</b>	<b>8,016,694</b>	<b>517,820</b>
Cash beginning of period	<u>1,164,764</u>	<u>646,944</u>
<b>Cash, end of period</b>	<b><u>\$ 9,181,458</u></b>	<b><u>\$ 1,164,764</u></b>

## **GREAT WESTERN MINERALS GROUP LTD**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

#### **1. Nature of operations and going concern**

Great Western Minerals Group Ltd. (the "Company") was incorporated under the Business Corporations Act of British Columbia on September 30, 1983. Effective December 12, 2007, the Company's jurisdiction was continued out of British Columbia into the federal jurisdiction. Less Common Metals Ltd. ("LCM"), a wholly owned subsidiary located in Birkenhead, United Kingdom ("UK"), is a leading global manufacturer and supplier of rare earth based alloys, high purity metals, and ultra-high purity indium. Great Western Technologies Inc. ("GWTI"), a wholly owned subsidiary located in Troy, Michigan, is a manufacturer and producer of specialty alloys, powders and related value added products used in the aerospace, automobile, industrial, computer and high-tech industries. The Company is in the development stage with respect to its interests in mineral properties.

These financial statements have been prepared on the basis of generally accepted accounting principles as applicable to a going concern, which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. For the year ended December 31, 2010, the Company reported an after-tax loss of \$16,333,285, an accumulated deficit of \$41,028,678, and working capital of \$26,587,789. As at year end, the Company has not generated positive cash flow from consolidated operations.

The Company has incurred significant cash losses in its exploration and manufacturing operations, and its ability to continue as a going concern is dependent upon the discovery of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete their development and fund their operations until commercially successful, and future production or proceeds from the disposition thereof. Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, or other business and financial transactions which would assure continuation of the Company's operations and exploration programs. While the Company has been successful in raising financing to date, there can be no assurances that it will be able to do so in the future.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities, the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was inappropriate. These adjustments could be material to the financial statements.

#### **2. Significant accounting policies**

##### **Basis of presentation**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Generally accepted accounting principles require that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Areas of significance requiring the use of management estimates related to the determination of the recoverability of capitalized mineral exploration costs, stock-based compensation and the determination of future income tax assets and liabilities. Actual amounts could differ from those estimates.

##### **Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, GWTI, GWUS Inc. ("GWUS"), LCM, and Less Common Metals Group ("LCMG"). Interests in joint ventures are accounted for by the proportionate consolidation method. The Company accounts for investments over which it has significant influence under the equity method, and investments designated as available for sale are recorded at fair value.

##### **Cash**

Cash consists of cash on hand and balances with financial institutions with an initial term to maturity of 3 months or less.

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**2. Significant accounting policies (continued)**

**Inventories**

Inventories are valued at the lower of cost and net realizable value as determined on a first-in, first-out basis.

**Mineral properties**

Subject to compliance with Provincial Mineral Regulations, the Company holds the right to explore for and develop mineral resources on various Crown property dispositions within certain provinces in Canada. The Company also owns property in the United States of America.

The cost of mineral properties and related exploration and development costs are deferred until the properties to which they relate are placed into production, sold or abandoned. These costs will be amortized on the unit-of-production method following the commencement of production or written-off if the properties are sold or abandoned. Management periodically assesses carrying values of non-producing properties and if management determines that the carrying values cannot be recovered or the carrying values are related to properties that are allowed to lapse, the unrecoverable amounts are expensed.

The recoverability of the carried amounts of mineral properties is dependent on the existence of economically recoverable ore reserves; the ability to obtain the necessary financing to complete the development of such ore reserves and the success of future operations. The Company has not yet determined whether any of its mineral properties contain economically recoverable reserves. Amounts capitalized as mineral properties represent costs incurred to date, less write-downs and recoveries, and do not necessarily reflect present or future values.

**Property, plant and equipment**

Property, plant and equipment are recorded at cost. Equipment held by GWTI and LCM is amortized using the straight-line method, while equipment held by GWMG and GWUS is amortized using the declining balance method. Annual amortization rates are as follows:

Computer equipment	30%
Furniture	20%
Leasehold improvements	20%
Motor vehicles	25%
Plant equipment	20%

**Intangible assets**

Intangible assets acquired in a business combination are recorded at their fair values. Finite-lived intangible assets are amortized over their useful lives. The carrying values of intangible assets are periodically assessed by management and if management determines that the carrying values cannot be recovered, the unrecoverable amount is charged to earnings in the current period.

**Goodwill**

Goodwill represents the excess of the purchase price of the Company's interest in the businesses acquired over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisitions. The Company determines, at least once annually, whether the fair value of the business to which goodwill has been attributed is less than the carrying value of the business's net assets including goodwill, thus indicating impairment. The Company completed the annual test to determine, whether for the year ended December 31, 2010, there was impairment in the carrying amount of goodwill. As a result of this review, no impairment was recognized.

## **GREAT WESTERN MINERALS GROUP LTD**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

#### **2. Significant accounting policies (continued)**

##### **Future income taxes**

The Company uses the asset and liability method of recording income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is included in the period that includes the enactment date. Future tax benefits are recognized to the extent that realization of such benefits is more likely than not to occur.

##### **Flow-through shares**

The Company finances a portion of its exploration activities through the issuance of flow-through shares. Certain tax deductible exploration and development expenditures funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. To recognize the forgone tax benefits to the Company, the future income tax liability and the carrying value of the shares issued are adjusted by the effect of the tax benefits renounced to subscribers. The future income tax liability is recorded when the expenditures are renounced by the Company.

##### **Asset retirement obligations**

The Company recognizes the fair value of liabilities for asset retirement obligations in the period in which they occur and/or in which a reasonable estimate of such costs can be made. The asset retirement obligation is recorded as a liability, with a corresponding increase to the carrying amount of the related long-lived asset. Subsequently, the asset retirement cost is allocated to expenses using a systematic and rational method and is also adjusted to reflect period-to-period changes in the liability resulting from passage of time and revisions to either timing or the amount of the original estimate of the undiscounted cash flow. The Company currently does not have any asset retirement obligations.

##### **Revenue recognition**

Revenue is recognized on product sales when the significant risks and rewards of ownership have passed in accordance with specific shipping terms. In addition, rental income and interest income is recognized as it becomes earned.

##### **Foreign currency translation**

For self-sustaining foreign operations, foreign currency transactions are translated to Canadian dollars using the current rate method. Under this method, all assets and liabilities expressed in foreign currency are translated at the year end exchange rate. Income statement items are translated at the average rate prevailing during the year. The functional currency for GWTI and GWUS is the US Dollar and the functional currency for LCM and LCMG is the UK Pound Sterling. The resulting foreign currency translation amount is shown in a separate component of other comprehensive income.

##### **Investments**

Investments are classified as available-for-sale securities and measured at fair value. Unrealized gains or losses from revaluations of the securities are included in other comprehensive income. If available-for-sale securities are disposed of, or there is impairment in value that is other-than-temporary, these amounts are transferred from other comprehensive income (loss) to net earnings (loss).

##### **Stock-based compensation**

The Company has a stock option plan that is described in Note 10. Options granted under the stock option plan are accounted for using the fair-value method. Under this method, the fair-value of stock options granted is measured at estimated fair-value at the grant date and recognized over the vesting period. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus on options granted is transferred to share capital.

## **GREAT WESTERN MINERALS GROUP LTD**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**2. Significant accounting policies (continued)**

**Earnings per share**

The Company uses the treasury method to compute the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on loss per share is recognized on the use of proceeds that could be obtained upon exercise of options warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive.

Basic loss per share is calculated by dividing the aggregate net loss for the period by total weighted average number of shares outstanding at the end of the period.

Loss per share on diluted basis is not presented separately as the effect of outstanding stock options and purchase warrants would be anti-dilutive. Accordingly, basic loss per share and diluted loss per share are equal for both years presented.

**Use of estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. By nature, valuations are subjective and do not necessarily result in precise determinations. Should underlying assumptions change, the estimated values could change by a material amount.

**Future accounting pronouncements**

Canada's Accounting Standards Board (AcSB) has ratified a strategic plan calling for the convergence of Canadian GAAP with International Financial Reporting Standards (IFRS), by publically accountable enterprises in Canada. The AcSB has confirmed that IFRS will replace current Canadian GAAP standards for fiscal years starting on or after January 1, 2011. As a result, the Company will be required to prepare its consolidated financial statements in accordance with IFRS for interim and annual periods beginning January 1, 2011. The Company's financial statements for interim and annual periods ended December 31, 2011 will require restatement of the comparative quarters for 2010.

Although IFRS uses a conceptual framework similar to Canadian GAAP, there are some significant differences on recognition, measurement and disclosure requirements. The Company has developed a plan to convert its financial statements to IFRS and management has participated in training programs related to IFRS. Management is in the process of quantifying the effects of adopting IFRS. The consolidated financial performance and financial position as presented in the Company's Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.

In January 2009, the CICA issued handbook sections 1582, 1601 and 1602 relating to Business Combinations and section 1600 relating to Consolidated Financial Statements. These sections apply prospectively to business combinations with an acquisition date that is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**3. Investment in Rare Earth Extraction Co. Limited**

The Company purchased 10,000,000 ordinary shares of Rare Earth Extraction Co. Limited (Rareco) in the third quarter of 2010 at a cost of \$3,518,451.

On November 18, 2010, the Company delivered a notice to the board of directors of Rareco confirming its intention to make an all-cash offer to the registered shareholders of Rareco to purchase up to all of the 37,764,700 Rareco shares not already held by GWMG at a price of ZAR3.00 per share. The intention to purchase expires on February 28, 2011. Funds in the amount of \$17,000,000 were transferred in trust to the Company's legal counsel in South Africa in order to effect this purchase. In December of 2010, an additional 4,621,977 ordinary shares of Rareco were purchased at a cost of \$1,983,101.

These purchases during 2010 resulted in the Company owning 14,621,977 ordinary shares of Rareco at a cost of \$5,501,552 representing a 30.6% interest.

Rareco is an inactive entity whose primary asset is an investment in a project to produce REE and thorium at the Steenkampskraal mine in South Africa. This entity had nominal earnings (loss) in 2010 and the Company's equity share of any earnings (loss) was nominal.

Of the \$17,000,000 in funds transferred in trust to the Company's legal counsel in South Africa, \$1,983,101 was used in December of 2010 to purchase the additional interest described above, while the trust earned \$100,634 in interest and \$236,772 was charged to earnings as an exchange loss. \$14,880,761 remains in trust at December 31, 2010.

See Note 21 for additional information on subsequent events related to Rareco.

**4. Investment in Vaaldiam Mining Inc.**

The Company owns 601,687 common shares of Vaaldiam Mining Inc. ("Vaaldiam"). The market value of the Company's common share interest is as follows:

	<u>2010</u>	<u>2009</u>
601,687 common shares	<u>\$156,439</u>	<u>\$225,633</u>

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**5. Mineral properties**

	Douglas River	Hoidas Lake	Deep Sands	Steenkam pskraal	Benjamin River	True Blue	Red Wine	Chaleur	Other	Total
<b>Balance Dec 31, 2009</b>	<b>\$155,338</b>	<b>\$11,774,244</b>	<b>\$6,935,427</b>	<b>\$204,863</b>	<b>\$754,575</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$2,100</b>	<b>\$ 19,826,547</b>
<b>Expenditures during the period</b>										
Acquisition	(6,884)	-	47,399	263,119	32,367	142,609	781,315	52,434	8,082	<b>1,320,441</b>
Pre-feasibility	-	-	-	513,221	-	-	-	-	-	<b>513,221</b>
Geology	-	65,506	15,705	12,973	149,774	299,964	45,300	59,803	-	<b>649,025</b>
Exploration	899,340	21,669	57,303	441,738	32,212	557,903	767,760	300	6,576	<b>2,784,801</b>
Write down of property	-	-	(7,055,834)	-	-	(1,000,476)	-	-	(8,168)	<b>(8,064,478)</b>
<b>Balance Dec 31, 2010</b>	<b>\$1,047,794</b>	<b>\$11,861,419</b>	<b>\$0</b>	<b>\$1,435,914</b>	<b>\$968,928</b>	<b>\$0</b>	<b>\$1,594,375</b>	<b>\$112,537</b>	<b>\$8,590</b>	<b>\$ 17,029,557</b>

	Douglas River	Hoidas Lake	Knee Lake	Deep Sands	Steenkam pskraal	Benjamin River	Other	Total
<b>Balance Dec 31, 2008</b>	<b>\$17,375</b>	<b>\$11,426,273</b>	<b>\$10,600</b>	<b>\$6,644,228</b>	<b>\$99,634</b>	<b>\$43,686</b>	<b>\$ -</b>	<b>\$ 18,241,796</b>
<b>Expenditures during the year</b>								
Acquisition	9,840	-	-	-	76,373	36,691	-	<b>122,904</b>
Pre-feasibility	-	109,504	-	-	-	-	-	<b>109,504</b>
Geology	36,974	158,302	-	45,088	-	580,667	-	<b>821,031</b>
Exploration	91,149	80,165	-	246,111	28,856	93,531	2,100	<b>541,912</b>
Write down of property	-	-	(10,600)	-	-	-	-	<b>(10,600)</b>
<b>Balance Dec 31, 2009</b>	<b>\$ 155,338</b>	<b>\$11,774,244</b>	<b>\$0</b>	<b>\$6,935,427</b>	<b>\$204,863</b>	<b>\$754,575</b>	<b>\$2,100</b>	<b>\$ 19,826,547</b>

**Douglas River**

The Company owns 100% interests in three mineral dispositions in the Douglas River area of Saskatchewan, which it acquired by staking.

To date on the property, the Company has completed a geochemical sampling program: blasted, excavated and sampled five new trenches; drilled 14 diamond drill holes totaling 1,002.6m and drilled 35 shallow “packsack” drill holes.

**Hoidas Lake**

The Company holds a 100% interest in the Hoidas Lake rare earth property. The property consists of 14 claims totaling 12,522ha. The property is subject to a 1.8% net smelter returns royalty, to a maximum of \$1,000,000.

In 2009 and 2010, the majority of work on the Hoidas Lake project has focused on metallurgical testing designed to identify an optimum beneficiation process for the Hoidas Lake mineralization. The metallurgical testing is now in the final phase.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**5. Mineral properties (continued)**

**Deep Sands**

The Company holds a 25% interest in rare earth elements (“REE”) contained in a heavy mineral sands project in Utah covering an area of approximately 170 square kilometres. The vendor holds the remaining 75% interest in the REE contained in the property, and has exclusive rights to deal with 100% of the non-rare earth-bearing minerals. Following the completion of the agreed to drilling and evaluation program, the Company has the right to negotiate with the vendor either the acquisition of the remaining 75% of the REE mineral rights or the participation in a joint venture. In the event that the Company and the vendor cannot agree to the terms of a participation agreement regarding the commercial exploitation of REE, each party has a right of first refusal to match any bona fide offer the other party receives from a third party. In the event that the Company does not exercise its right of first refusal and a third party commences mining of any mineral at the property or if the Vendor sells its interest in the property, the Vendor or such third party will be required to pay the Company an amount equal to two times all documented expenses the Company has incurred under the agreement in connection with the work program.

In 2008, the Company completed an airborne magnetic and radiometric survey over the property and undertook an extensive drilling program. Using Direct Push Drill Technology, 953 shallow drill holes, totaling 5,790 m, were drilled at a spacing of approximately 500 m, and 77 deeper holes, totaling 1,862 m, at a spacing of approximately 1,600m.

During 2009/2010, the analysis of thousands of samples from these holes was undertaken. This data has now been compiled and forwarded to our Joint Venture Partner, Titan Mining. The initial interpretation is that the property does not support a stand-alone rare earth mining operation.

After considering the test results in 2010 and analyzing the recoverability of the exploration costs spent on the project, management is of the opinion that the capitalized exploration costs are not recoverable at this time. Management has no plans to pursue exploration on this property, and in 2010 wrote off all costs relating to the property aggregating \$7,055,834.

However, the initial premise of the project was that REE would be recovered as a by-product of a magnetite mining operation and that potential still exists. There are two areas of the property that still have not been adequately tested and the original vendor has indicated they will carry out that testing as well as following up on prospective areas indicated by the 2008 drilling program. Discussions will take place with Titan Mining about any future exploration on the property.

**Steenkampskraal**

On December 22nd, 2008, the Company entered into an Option Agreement with Rare Earth Extraction Co. Limited (“Rareco”) of Stellenbosch, South Africa, to refurbish, re-commission, and operate the currently abandoned Steenkampskraal underground REE mine in the Western Cape, South Africa. In addition, GWMG can acquire exclusive access to 100% of the REE mined there (“Supply Agreement”).

Under the terms of the agreement, GWMG has paid to Rareco an amount of ZAR 1 Million (approximately C\$125,000) in two tranches for the option. The first payment of ZAR 500,000 was paid on signing the agreement and the second payment of ZAR 500,000 was paid during the third quarter of 2009.

On February 3, 2010, GWMG and Rareco entered into an Exclusivity Agreement whereby GWMG will pay monthly to Rareco R75,000 which was increased in April 2010 to R100,000 in return for specific undertakings which include, but are not limited to: working with the DMR to expedite the conversion of the old order mining right which has been completed; obtaining all necessary governmental and regulatory approvals required to operate the Steenkampskraal mine once the “new order” mining license is issued; financing the rehabilitation guarantee required by the DMR in respect of the Steenkampskraal mine; and

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**5. Mineral properties (continued)**

**Steenkampskraal (continued)**

facilitating the receipt of all necessary governmental and regulatory approvals for GWMG's involvement in the ownership structure of the project.

On June 3, 2010, the Department of Mineral Resources of South Africa granted a New Order Mining Right to a subsidiary of Rareco with respect to the Steenkampskraal Monazite Mine.

On June 9, 2010, the Company announced the appointment of SRK Engineers and Scientists ("SRK") of Johannesburg, South Africa to complete a feasibility study on the Steenkampskraal project and approved Phase 1 of that study. On October 7, 2010 the Company signed a contract with SRK for the completion of the final phase of the feasibility study. SRK has estimated that they will complete the feasibility study based on the assumption that there will be no delays caused by any of the regulatory agencies associated with the required activities.

On August 10, 2010, GWMG entered into the Rareco Offtake Agreement. Under the terms of the Rareco Offtake Agreement, Rareco has agreed to sell and deliver, and GWMG as agreed to purchase, 100% of the REE produced by Rareco and its subsidiaries from ore mined at Rareco's Steenkampskraal mine for a 10 year period after which a new supply agreement may be negotiated, subject to the satisfaction of certain conditions precedent. In addition, the Company can purchase 100% of the REE mined or obtained by Rareco or its subsidiaries from any other source of REE that is owned, controlled and/or acquired by Rareco or its subsidiaries, subject to the terms and conditions set out in the Rareco Offtake Agreement. The conditions precedent included, but was not limited to, completing a bankable feasibility study by December 31, 2011 and arranging project financing. Pursuant to the terms of the Rareco Offtake Agreement, the Company may undertake one or more transactions which may result in the acquisition of an equity stake in Rareco or the provision of debt financing to Rareco.

**Benjamin River**

The Company entered into an Option Agreement with a third party to acquire a 100% working interest in a REE property (the "Benjamin River Property") in the Province of New Brunswick, approximately 53 km east-northeast of the city of Bathurst. The Benjamin River Property covers 55 claims totaling 880 hectares (ha) and hosts an apatite-diopside-magnetite vein that has been traced on surface for 800 metres along strike, with an apparent width of up to 50 metres. As part of the agreement, GWMG has staked an additional 436 claims (approximately 9500 ha). Under the terms of the agreement, GWMG must pay to the vendor \$5,000 cash (paid) plus issue 100,000 common shares of GWMG in January 2009 (issued); \$10,000 cash (paid) plus issue 50,000 common shares on the first anniversary (issued), \$30,000 cash on the second anniversary; \$50,000 cash on the third anniversary; \$100,000 cash on the fourth anniversary, with a final payment of \$300,000 cash on the fifth anniversary date. Upon completion of the prescribed payments, GWMG will own 100% of the property, subject to a 2% NSR payable to the vendor.

Work to date on the property includes airborne magnetic and radiometric surveys, extensive geochemistry surveys and the drilling of 11 diamond drill holes. Drill results were reported in a news release dated September 10, 2010.

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**5. Mineral properties (continued)**

**True Blue**

The Company entered into an option agreement to acquire up to 65% working interest in True North Gems Inc's (TGX) True Blue property in the Yukon. The True Blue property is located 55 kilometers south of Ross River, Yukon.

Under the terms of the Agreement, the Company can earn a 51% interest in the property (the "First Option") with an initial cash payment of C\$50,000 on signing which was paid on April 7, 2010, followed by additional cash payments totaling C\$350,000 on or before January 30, 2013. In addition, to exercise the First Option, the Company was required to issue TGX 300,000 common shares on signing the agreement which were issued April 6, 2010, followed by an additional 900,000 common shares on or before January 30, 2012.

The First Option also requires the Company to complete a total of C\$5.0 million in exploration costs on or before December 31, 2013 with a commitment to incur C\$1.0 million of such exploration costs during 2010. Once the Company earns its 51% interest, the Company may exercise a second option (the "Second Option") that will grant the Company a further 14% interest (total 65%) by completing all expenditures in connection with the completion of a bankable feasibility study. The Company will be the operator of the True Blue property during the term of the First and Second Option. The Company will also have the right to market TGX's share of REE production with TGX having the option to renew such marketing agreement every three years.

To date this year, the Company has completed the following work program on the True Blue property:

- Staked an additional 241 claims to cover a large syenite body and newly discovered mineralized dykes
- Geological mapping
- 994 line-km of heliborne radiometrics and aeromagnetics flown over the property by New Sense Geophysics
- Extensive geochemical survey consisting of stream sediments samples, soil samples, chip samples and grab samples
- A mineralogical study completed by Xtrata on 4 samples indicating that significant REE are zircon, pyrochlore, epidote, allanite, columbite and a cerium-carbonate.

Initial indications are that REE mineralization is limited to the dykes and continuity is difficult to establish.

After considering the test results in 2010 and analyzing the recoverability of the exploration costs spent on the project, management is of the opinion that the capitalized exploration costs are not recoverable at this time. Management has no plans to pursue the exploration on this property, and in 2010 wrote off all costs relating to the property aggregating \$1,000,476.

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**5. Mineral properties (continued)**

**Red Wine**

The Company entered into an option agreement to acquire up to a 50% working interest in Alterra Resources Inc's (Alterra) Red Wine property, located approximately 100 km north-east of Churchill Falls, Labrador. The Red Wine Property comprises 10,025 hectares held under 401 claims, all of which are in good standing.

Under the terms of the Agreement, the Company will pay an aggregate of \$225,000, with \$50,000 payable on the date of the execution of the Letter Agreement which was paid May 7, 2010, \$75,000 payable on or before April 30, 2011 and \$100,000 payable on or before April 30, 2012. The Company will issue an aggregate of 1,050,000 common shares, with 200,000 common shares issuable on the execution of the Letter Agreement which were issued on May 4, 2010, 350,000 common shares issuable on or before April 30, 2011 and 500,000 common shares issuable on or before April 30, 2012.

The Company will also fund an exploration program of an aggregate of \$1,500,000 over a three year period, commencing on or before the date of the Letter Agreement, of which a minimum of \$750,000 must be completed within the first year following the date of the Letter Agreement, a further \$250,000 must be completed within the second year following the date of the Letter Agreement and any balance must be completed within the third year following the date of the Letter Agreement.

Alterra will be the operator and the Company will pay Alterra a 10% management fee, payable in cash. Upon the completion of the annual payments, the share issuances and the Work Program, the Company and Alterra will form a joint venture or incorporate a new company for the development and exploitation of the Red Wine Property. On commencement of commercial production, the Company will have a three year renewable right to market Alterra's share of production of REE, niobium and tantalum from the Red Wine Property. Alterra will retain the option to renew such marketing agreement every three years.

To date, six REE showings have been outlined on the property. The main REE is eudialyte. The showings range from 200 m to 1,300 m in length and are from 5 m to 60 m in width. Channel samples, using a diamond saw, were taken in 17 locations and 245 samples collected. These are out for assay and results are pending.

By year end, 10 holes (1,890m) were drilled on two of the 6 mineralized zones discovered during the prospecting and mapping programs. One zone, the Cabernet Zone, encountered significant mineralization.

The program for the summer of 2011 will include further prospecting, geological mapping, geochemistry and further drill testing of the Cabernet Zone and the other surface zones of mineralization.

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**5. Mineral properties (continued)**

**Chaleur**

The Company signed a letter of intent with Cornerstone Capital Resources Inc. on the 200 claim Chaleur East property in northern New Brunswick. The Company made an initial payment of 25,000 shares and guarantees minimum 2010 expenditures of \$50,000, sufficient to maintain the property in good standing. Thereafter, GWMG may elect to make further payments of cash and shares totaling \$100,000 and 200,000 respectively over the next three years and incur additional exploration expenditures totaling \$950,000 in order to earn a 51% interest in the claims. The Agreement also provides that the Company and Cornerstone will enter into a formal joint venture agreement with respect to the interest that the Company may earn with respect to the Chaleur East property.

During 2010 the Company completed exploration programs on two separate project areas on the Chaleur property; i) Claim Group 5323 (200 claims); and ii) Claim Group 5720 (180 claims). Exploration work included reconnaissance geological mapping, prospecting, mobile metal ion (MMI) soil geochemistry surveys and follow up bedrock chip sampling.

The MMI soil samples were collected at a grid spacing of 50m x 100m, and focused on areas where previous work by Cornerstone had identified anomalous REE concentrations in outcrop and stream sediment samples. Three areas were identified on the two claim groups and these will be followed up by further geochemical surveys, geological mapping and prospecting.

See Note 21 for more information on subsequent events related to Chaleur.

**6. Property, plant and equipment**

	2010		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	173,345	125,765	47,580
Furniture	60,875	38,926	21,949
Motor vehicles	34,075	32,350	1,725
Plant equipment	6,140,226	4,188,340	1,951,886
Leasehold improvements	431,406	191,335	240,071
	<b><u>\$ 6,839,927</u></b>	<b><u>\$ 4,576,716</u></b>	<b><u>\$ 2,263,211</u></b>

During 2010, the Company recorded a write-down in the net book value of the property, plant and equipment amounting to \$262,887 related to the abandonment of the Deep Sands camp site.

	2009		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	150,567	106,609	43,958
Furniture	55,950	29,496	26,454
Motor vehicles	36,744	33,869	2,875
Plant equipment	6,662,567	3,687,916	2,974,651
Leasehold improvements	455,172	186,050	269,122
	<b><u>\$ 7,361,000</u></b>	<b><u>\$ 4,043,940</u></b>	<b><u>\$ 3,317,060</u></b>

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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(Canadian dollars)

**7. Intangible assets and goodwill**

	<u>2010</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Intangible assets	\$1,700,678	\$425,169	\$1,275,509
Goodwill	\$2,660,153	\$ N/A	\$2,660,153
	<u>2009</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Intangible assets	\$1,615,644	\$170,068	\$1,445,576
Goodwill	\$2,660,153	\$ N/A	\$2,660,153

**8. Demand loan**

LCM has an operating line of credit, which is composed of two separate facilities.

The first facility is a receivables finance facility, whereby approximately 30% of approved receivables are advanced to LCM. The value of the loan fluctuates monthly depending on the balance of accounts receivable. There are no required principal repayments and the monthly interest payments are based on the UK Base Rate plus 2.5%. The facility service fee is £2,000 per month payable in advance. Security for the loan is placed on the assets of LCM.

The second facility is a revolving inventory facility, whereby funds are advanced against eligible inventory. The value of the loan is approximately 30% of the total inventory of LCM and it fluctuates monthly. There are no required principal repayments and the monthly interest payments are based on the UK Base Rate plus 2.5%. The facility service fee is £10,000 per annum payable quarterly in advance. Security for the loan is placed on the assets of LCM.

	<u>2010</u>	<u>2009</u>
Receivables finance facility £564,492 (2009 £39,240)	\$ 875,696	\$ 66,386
Inventory facility £402,410 (2009 £313,423)	<u>624,260</u>	<u>530,249</u>
Total	<u>\$ 1,499,956</u>	<u>\$596,635</u>

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**9. Long-term debt**

	<u>2010</u>	<u>2009</u>
Convertible debenture (Pope & Co); matures May 25, 2010; no cash interest component		799,005
Venture Structured Finance cash flow loan, due June 27, 2010; bears interest at the UK Base rate plus 3.5%, paid in monthly installments of £21,000 (\$33,289) principal plus interest	-	208,854
Venture Structured Finance plant and machinery loan, due June 27, 2010; secured by plant and machinery of LCM, bears interest at the UK Base rate plus 2.75%; paid in monthly installments of £22,000 (\$34,874) principal plus interest for the second year	-	207,315
	<u>-</u>	<u>1,215,174</u>
Less current portion	<u>-</u>	<u>1,215,174</u>
	<u>\$ -</u>	<u>\$ -</u>

On June 27, 2008, GWMG purchased the common shares of LCM. A portion of the purchase price was funded by GWMG issuing a convertible debenture to the vendors. GWMG also granted the vendors a £300,000 completion fee payable at the end of the term. On September 10, 2009, the Company consented to the sale to third party purchasers of its existing secured convertible debentures having an aggregate principal amount of £2,500,000, plus an accrued and unpaid £300,000 completion fee plus accrued interest. Furthermore, the Company consented to allow for the immediate conversion of the entire principal amount, accrued and unpaid completion fee and outstanding interest of the debentures into 20,720,425 common shares in the capital of the Company in accordance with the pricing set forth in the debentures. An advisory fee of C\$346,653 was paid to Pope & Company Limited, which amount was satisfied by the issuance of 1,216,325 common shares.

The remaining portion of the purchase price of LCM was funded by Venture Structured Finance. The first loan consisted of £500,000 borrowed against the cash flows of LCM. This loan was paid in full in July of 2010. The second loan consisted of £375,000 borrowed against the plant and machinery of LCM. This loan was paid in full in July 2010.

**10. Subordinated debentures**

On September 7, 2010 the Company closed a private placement of an aggregate of \$5,000,000 of secured subordinated debentures of the Company. These debentures were paid out on October 25, 2010. A cash finder's fee of C\$80,000 was paid in respect of these debentures. 500 Commitment Fee Shares were issued for each \$1,000 of the aggregate Principal Amount of the Debenture upon maturity or repayment of the debenture. 2,500,000 shares were issued on December 15, 2010 in satisfaction of the commitment fee (Note 11).

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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(Canadian dollars)

**11. Share capital**

Authorized unlimited common shares, without par value:

Issued

	<u>Common Shares</u>	<u>Share Capital</u>
<b>Balance, December 31, 2008</b>	<b>145,811,357</b>	<b>\$ 39,243,321</b>
Issued for mineral properties	150,000	23,000
Private placements	1,595,443	143,590
Conversion of debentures	21,280,425	5,050,181
Settlement of long term debt	1,216,325	346,653
Special purchase warrants	-	2,510,168
Exercise of warrants	30,656,568	3,812,878
Exercise of options	450,000	81,000
Renunciation of Canadian exploration expenses	-	(972,630)
Cash issue costs	-	(499,075)
Non-cash issue costs	-	(526,731)
	<hr/>	<hr/>
<b>Balance, December 31, 2009</b>	<b>201,160,118</b>	<b>\$ 49,212,355</b>
Issued for mineral properties	550,000	100,875
Issue of shares	134,968,542	29,938,568
Conversion of debentures	3,637,759	727,552
Commitment fee	2,500,000	1,012,500
Special purchase warrants	9,861,371	-
Exercise of warrants	1,589,640	431,457
Exercise of options	1,300,000	371,475
Cash issue costs	-	(1,904,679)
Non cash issue costs	-	(1,558,597)
	<hr/>	<hr/>
<b>Balance December 31, 2010</b>	<b><u>355,567,430</u></b>	<b><u>\$ 78,331,506</u></b>

During 2009, the Company issued the following shares:

- 100,000 common shares with a fair value of \$0.085 per share and 50,000 common shares with a fair value of \$0.29 per share as part of the Benjamin River option agreement.
- 1,595,443 non-flow through units at \$0.09 per unit for gross proceeds of \$143,590. Each unit consists of one share and one share purchase warrant. Each share purchase warrant entitles the holder to acquire one share at an exercise price of \$0.15, for a two year period from the closing date.
- 21,280,425 common shares with a fair value of \$5,050,181 in relation to the conversion of convertible debentures.
- 1,216,325 common shares with a fair value of \$346,653 in settlement of long-term debt.
- In addition, in 2009 the Company issued 30,656,568 common shares due to warrant conversions for gross proceeds of \$3,812,878, and issued 450,000 common shares due to stock option exercises for gross proceeds of \$81,000.

## GREAT WESTERN MINERALS GROUP LTD

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

#### For the years ended December 31, 2009 and 2010

(Canadian dollars)

#### **11. Share capital (continued)**

During 2009 the Company issued 8,964,886 special purchase warrants for gross proceeds of \$2,510,168. Each special warrant was issued pursuant to the terms of a special warrant indenture entered into between GWMG and Computershare Trust Company of Canada. Each special warrant is exchangeable, for no additional consideration, for 1.1 common share and one-half of one common share purchase warrant. When issued, each whole warrant will entitle its holder to purchase one additional common share for \$0.50 and will expire on November 6, 2014, subject to acceleration of the exercise period in certain circumstances. If following the closing of the offering, the Company's daily volume weighted average share price is \$1.00 or more per common share for 10 consecutive trading days on the TSX Venture Exchange, the expiry date of the warrants will be automatically amended to the date that is 60 days after the accelerating event, and if not exercised within such period the warrants shall be deemed expired. The agents received aggregate cash commission of \$165,646 in connection with the offering and 591,592 broker warrants. Each broker warrant will entitle its holder to purchase one common share for \$0.28 until November 6, 2011.

During 2010, the Company issued the following shares:

- 300,000 common shares with a fair value of \$0.16 per share as part of the True Blue project option agreement, 200,000 common shares with a fair value of \$0.195 per share as part of the Red Wine project option agreement, and 50,000 common shares (25,000 with a fair value of \$0.165 per share and 25,000 with a fair value of \$0.39) as part of the Chaleur joint venture agreement.
- 28,750,000 non-flow through units at \$0.28 per unit for gross proceeds of \$8,050,000. Each unit consists of one share and one share purchase warrant. Each share purchase warrant entitles the holder to acquire one share at an exercise price of \$0.50, for a five year period from the closing date.
- 106,060,606 non-flow through units at \$.33 per unit for gross proceeds of \$35,000,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one common share for a price of \$.45 per common share until October 19, 2012. The agents were paid an aggregate cash commission of \$2,100,000 in connection with the unit offering and received an aggregate of 6,363,636 broker warrants to acquire up to 6,363,636 common shares at a price of \$.45 per common share until October 19, 2012.
- 157,936 common shares with a fair value of \$60,000 as the first installment of six payments in shares due under a management agreement with Byron Capital. The agreement requires payment of a total management fee of \$360,000 over a period of 6 months payable in shares of the Company. The number of shares is computed based on the 10 day volume weighted average as at the last day of each month.
- 3,637,759 common shares with a fair value of \$727,552 in relation to the conversion of convertible debentures.
- 9,861,371 common shares, together with warrants totaling 4,482,439, pursuant to the terms of the special warrant indenture issued in 2009 between GWMG and Computershare Trust Company of Canada.
- 2,500,000 common shares with a fair value of \$0.405 as commitment fee for subordinated debentures paid out in the year. The estimated fair value of \$1,012,500 has been charged to the Statement of Loss as part of interest expense.

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**11. Share capital (continued)**

- In addition, in 2010 the Company issued 1,589,640 common shares due to warrant conversions for gross proceeds of \$431,457, and issued 1,300,000 common shares due to stock option exercises for gross proceeds of \$371,475.

**Stock option plan**

The Company has established a stock option plan under which options may be granted to directors, officers, employees, consultants and members of the technical advisory committee. Options granted have an exercise price of not less than the market price of the common shares on the stock exchange on which the shares are traded and are exercisable into one common share.

Options outstanding as of December 31, 2010 are as follows:

<u>Expiry Date</u>	<u>Price</u>	<u>Outstanding 2009</u>	<u>Granted</u>	<u>Exercised</u>	<u>Relinquished / Lapsed</u>	<u>Outstanding 2010</u>
May 5, 2010	0.18	650,000		(100,000)	(550,000)	-
June 29, 2010	0.18	375,000			(375,000)	-
October 5, 2010	0.235	150,000		(150,000)		-
December 16, 2010	0.18	250,000		(250,000)		-
April 18, 2011	0.18	600,000				600,000
September 20, 2011	0.18	350,000				350,000
August 3, 2012	0.18	1,125,000				1,125,000
October 5, 2012	0.18	1,100,000		(350,000)	(100,000)	650,000
October 20, 2012	0.405	-	100,000			100,000
December 4, 2012	0.18	200,000		(100,000)		100,000
January 27, 2013	0.35	-	150,000			150,000
January 27, 2013	0.40	-	150,000			150,000
January 27, 2013	0.65	-	150,000			150,000
January 27, 2013	0.80	-	150,000			150,000
April 2, 2013	0.18	250,000				250,000
October 31, 2013	0.20	3,300,000		(200,000)	(25,000)	3,075,000
July 27, 2014	0.18	1,100,000		(150,000)		950,000
November 9, 2014	0.35	7,550,000			(475,000)	7,075,000
June 15, 2015	0.20	-	3,250,000			3,250,000
October 20, 2015	0.405	-	400,000			400,000
December 1, 2015	0.40	-	600,000			600,000
December 29, 2015	0.50	-	5,000,000			5,000,000
		<b><u>17,000,000</u></b>	<b><u>9,950,000</u></b>	<b><u>(1,300,000)</u></b>	<b><u>(1,525,000)</u></b>	<b><u>24,125,000</u></b>

**GREAT WESTERN MINERALS GROUP LTD**

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**11. Share capital (continued)**

For options outstanding at December 31, 2010 and December 31, 2009, weighted average exercise prices are as follows:

	<u>2010 Options</u>	<u>2010 Average Price</u>	<u>2009 Options</u>	<u>2009 Average Price</u>
Beginning of year	17,000,000	\$ 0.29	11,695,000	\$ 0.36
Options granted	9,950,000	0.49	8,975,000	0.34
Options exercised	(1,300,000)	0.19	(450,000)	0.18
Options lapsed	(1,525,000)	0.27	(3,220,000)	0.36
	<b><u>24,125,000</u></b>	<b><u>\$ 0.37</u></b>	<b><u>17,000,000</u></b>	<b><u>\$ 0.29</u></b>

<u>Options Price Per Share</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u>
0.18	4,025,000	\$ 0.18	1.91
0.20	3,075,000	0.20	2.79
0.20	3,250,000	0.20	4.40
0.35	7,225,000	0.35	3.77
0.40	150,000	0.40	2.05
0.40	600,000	0.40	4.85
0.405	500,000	0.405	4.15
0.50	5,000,000	0.50	4.93
0.65	150,000	0.65	2.05
0.80	150,000	0.80	2.05
	<b><u>24,125,000</u></b>	<b><u>\$ 0.37</u></b>	<b><u>3.93</u></b>

The fair value of stock options issued in the year is estimated using the Black-Scholes option pricing model, with assumptions being made for each of the following variables: risk-free rate, volatility factor, dividend yield, weighted-average expected option life and expected forfeiture rate.

**Warrants**

On certain issues of common shares, the Company has attached warrants entitling the holder to acquire additional common shares of the Company. A summary of the outstanding warrants is as follows:

	<u>Warrants</u>	<u>Average Price</u>
<b>Balance, December 31, 2008</b>	<b>38,594,231</b>	<b>\$0.52</b>
Granted	10,560,329	0.18
Exercised	(29,899,902)	0.13
Expired	(2,732,473)	0.53
<b>Balance, December 31, 2009</b>	<b>16,522,185</b>	<b>0.26</b>
Granted	71,887,740	0.46
Exercised	(8,964,886)	0.28
Expired	(1,225,973)	0.35
<b>Balance, December 31, 2010</b>	<b><u>78,219,066</u></b>	<b><u>\$0.44</u></b>

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**11. Share capital (continued)**

**Broker warrants**

On certain issuances of common shares, the Company granted either broker unit warrants or broker warrants as partial consideration to the agent for services associated to such share issues.

A summary of the outstanding broker warrants is as follows:

	<u>Warrants</u>	<u>Average Price</u>
<b>Balance, December 31, 2008</b>	<b>5,683,340</b>	<b>\$0.42</b>
Granted	1,124,925	0.25
Exercised	(756,666)	0.10
Expired	(4,051,375)	0.48
<b>Balance, December 31, 2009</b>	<b>2,000,224</b>	<b>0.24</b>
Granted	8,376,136	0.42
Exercised	(1,589,640)	0.24
<b>Balance December 31, 2010</b>	<b><u>8,786,720</u></b>	<b><u>\$0.40</u></b>

The fair value of certain stock options, warrants and broker warrants have been valued using the Black-Scholes option pricing model. The fair value on the grant of these securities is added to warrants or contributed surplus. Upon exercise, the corresponding amount related to the security is removed from warrants or contributed surplus and added to share capital.

On August 24, 2009, the Company granted 250,000 broker warrants. The strike price for the warrants issued was \$0.20 exercisable for a period of 1.25 years. The value of the warrants calculated using the Black-Scholes warrant pricing model described above was \$43,233 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 0.56%, an expected life of the warrants of 1.25 years, an annualized volatility rate of 190% and a dividend rate of nil.

On August 25, 2009, Company granted 200,000 broker warrants. The strike price for the warrants issued was \$0.175 exercisable for a period of 2 years. The value of the warrants calculated using the Black-Scholes warrant pricing model described above was \$33,356 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 0.56%, an expected life of the warrants of 2 years, an annualized volatility rate of 190% and a dividend rate of nil.

On August 26, 2009, the Company granted 83,333 broker warrants. The strike price for the warrants issued was \$0.20 exercisable for a period of 1.25 years. The value of the warrants calculated using the Black-Scholes warrant pricing model described above was \$14,443 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 0.56%, an expected life of the warrants of 1.25 years, an annualized volatility rate of 191% and a dividend rate of nil.

On November 6, 2009, the Company granted 591,592 broker warrants. The strike price for the warrants issued was \$0.28 exercisable for a period of 2 years. The value of the warrants calculated using the Black-Scholes warrant pricing model described above was \$132,596 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 1.28%, an expected life of the warrants of 2 years, an annualized volatility rate of 174% and a dividend rate of nil.

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

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**11. Share capital (continued)**

On January 25, 2010, the Company granted 2,012,500 broker warrants. The strike price for the warrants issued was \$0.28 exercisable for a period of 2 years. The value of the warrants calculated using the Black-Scholes warrant pricing model described above was \$279,127 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 1.18%, an expected life of the warrants of 2 years, an annualized volatility rate of 105.7% and a dividend rate of nil.

The Company also extended the expiry date from June 27, 2010 to June 27, 2011 on an aggregate of 750,000 common share purchase warrants originally issued on June 27, 2008 in connection with the acquisition of Less Common Metals Limited all other terms remain unamended.

Also during the fourth quarter of 2010, the Company granted 6,363,636 broker warrants. This is in relation to the issue of 53,535,353 warrants as a result of the equity raise of \$35,000,000. The strike price for the warrants and broker warrants issued was \$0.45 exercisable for a period of 2 years. Assumptions used in the pricing model were: risk free rate of 1.32%, an expected life of the warrants of 2 years, an annualized volatility rate of 93.9% and a dividend rate of nil.

**Contributed surplus**

On July 27, 2009, the Company granted 1,200,000 stock options to employees and consultants. The strike price for the options issued was \$0.18 exercisable for a period of 5 years. The value of the options calculated using the Black-Scholes option pricing model described above was \$170,733 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 0.56%, an expected life of the options of 5 years, an annualized volatility rate of 187% and a dividend rate of nil.

On September 2, 2009, the Company granted 150,000 stock options to a consultant. The strike price for the options issued was \$0.235 with an October 5, 2010 expiry date. The value of the options calculated using the Black-Scholes option pricing model described above was \$23,973, and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 0.56%, an expected life of the options of 1.08 years, an annualized volatility rate of 191% and a dividend rate of nil.

During the fourth quarter of 2009, the Company granted 7,625,000 stock options to employees and consultants. The strike price for the options issued was \$0.35 exercisable for a period of 5 years. The value of the options calculated using the Black-Scholes option pricing model described above was \$1,980,556 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 1.28%, an expected life of the options of 5 years, an annualized volatility rate of 174% and a dividend rate of nil.

During the first quarter of 2010, the Company granted 600,000 stock options to a consultant. The average strike price for the options was \$0.55 exercisable for a period of 3 years. The value of the options calculated using the Black-Scholes option pricing model described above was \$97,860 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 1.21%, an expected life of the options of 3 years, an annualized volatility rate of 95.9% and a dividend rate of nil.

**GREAT WESTERN MINERALS GROUP LTD**

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**11. Share capital (continued)**

During the second quarter of 2010, the Company granted 3,250,000 stock options to employees and consultants. The strike price for the options issued was \$0.20 exercisable for a period of 5 years. The value of the options calculated using the Black-Scholes option pricing model described above was \$290,987 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 1.44%, an expected life of the options of 5 years, an annualized volatility rate of 96.4% and a dividend rate of nil.

During the fourth quarter of 2010, the Company granted 1,100,000 stock options to employees and consultants at a strike price of \$0.40, 100,000 of which are exercisable over 2 years and the remaining options exercisable over 5 years. The Company also granted 5,000,000 stock options to directors and officers at a strike price of \$0.50 exercisable over 5 years. The value of these options was calculated using the Black-Scholes option pricing model as \$1,746,722 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 1.32%, an expected life of the options of 5 years, an annualized volatility rate of 93.9% and a dividend rate of nil.

**12. Note to the statement of cash flows**

During the year, non-cash operating, financing and investing activities were as follows:

	<u>2010</u>	<u>2009</u>
Common shares issued for Benjamin River acquisition	\$ -	\$ 23,000
Common shares issued for issuance of debentures	727,552	98,000
Common shares issued for fees on debenture conversion	1,012,500	346,653
Fair value of stock options and warrants allocated to shares issued on exercise	1,979,545	141,551
Common shares issued for interest on LCM debenture	20,923	17,103
Common shares issued for (gain) loss on LCM debenture conversion	9,175	(419,081)
Common shares issued for mineral properties	100,875	-
Common shares issued for Byron Capital Management Fee	60,000	-

**GREAT WESTERN MINERALS GROUP LTD**

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**13. Lease commitments**

The Company's subsidiary, GWTI, leases office and warehouse space at two facilities in Troy, Michigan under operating leases, with monthly lease payments totalling approximately US\$12,199, expiring in December 2012. Future minimum lease payments under the above non-cancellable leases are approximately US\$146,390.

The Company's subsidiary, LCM, leases office and warehouse space in Birkenhead, UK. The buildings were leased in two stages; 2,000 sq meters were leased for 25 years from 1997, the further 1,600 sq meters were leased in 2001 for 21 years. Both leases expire on June 20, 2022. Future minimum lease payments under the above non-cancellable leases are approximately £112,288 in 2011-2012. The lease rate will be reviewed and adjusted to market on June 30, 2012.

In 2009 the Company sold its head office building and leased it back for a five-year term. Accordingly, the gain on the sale was deferred and was being amortized over the remaining term of the lease. In August 2010 this lease was terminated and leased to new tenants, and the Company moved to new premises. Accordingly, the entire remaining deferred gain on the sale of the building of \$178,051 was recognized in 2010. The new location is under lease until August 31, 2015. Future minimum lease payments under this non-cancellable lease is approximately \$168,683 in 2011-2015.

**14. Income taxes**

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Loss carry forwards	\$ 7,080,701	\$ 5,315,779
Mineral properties	322,201	-
Property, plant and equipment	151,428	84,367
Investment in Vaaldiam Resources Ltd.	174,631	165,290
Share issue cost	<u>882,700</u>	<u>412,211</u>
Future income tax assets before valuation allowance	8,611,661	5,977,647
Valuation allowance	<u>(8,611,661)</u>	<u>(3,208,707)</u>
Future income tax assets, net of valuation allowance	-	2,768,940
<b>Liabilities</b>		
Mineral properties	-	2,768,940
Property, plant and equipment	391,665	455,692
Intangible assets	<u>357,142</u>	<u>404,761</u>
	748,807	3,629,393
Net future income tax liabilities	<u>\$ 748,807</u>	<u>\$ 860,453</u>

Certain future tax assets have been reduced to zero through the utilization of a valuation allowance because of the high degree of uncertainty surrounding their realization due to the nature of the business.

**GREAT WESTERN MINERALS GROUP LTD**

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**14. Income taxes** (continued)

The effective income tax rate differs from the statutory rate as follows:

	<u>2010</u>	<u>2009</u>
Loss before income taxes	\$ (16,184,849)	\$ (7,357,338)
Income tax rate	<u>30.00%</u>	<u>31.00%</u>
Expected tax recovery	(4,855,455)	(2,280,775)
Non-deductible items including stock based compensation	673,619	655,661
Tax benefits not recognized	4,086,352	1,177,036
Effect of differences from expected tax rate	<u>243,920</u>	<u>45,715</u>
Income tax (recovery)	<b><u>\$ 148,436</u></b>	<b><u>\$ (402,363)</u></b>

At December 31, 2010, the Company has losses for Canadian and US income tax purposes which can be carried forward to reduce taxes in future years. These losses expire as follows:

	Canada	US	Total
<b>Expiry</b>			
2030	\$ 5,072,592	\$ 1,122,440	\$ 6,195,032
2029	4,172,438	913,117	5,085,555
2028	2,886,467	1,415,655	4,302,122
2027	2,236,280	1,339,698	3,575,978
2026	1,679,675	1,057,206	2,736,881
2015	816,199	-	816,199
2014	<u>309,492</u>	<u>-</u>	<u>309,492</u>
	<b><u>\$ 17,173,143</u></b>	<b><u>\$ 5,848,116</u></b>	<b><u>\$ 23,021,259</u></b>

Other comprehensive income included on the consolidated statements of the shareholders equity and the consolidated statements of comprehensive income is presented net of income taxes. However as there are full valuation allowances provided there has been no net affect of income taxes on other comprehensive income taxes.

**15. Related party transactions**

During the year, salaries, bonuses, management and consulting fees of \$932,054 (2009 - \$1,188,985) were paid to directors, officers and companies controlled by common directors. \$121,707 (2009 - \$174,905) was included in mineral properties, \$153,475 (2009 - \$49,153) was included in management fees, and \$656,872 (2009 - \$964,927) was included in salaries. During the year, \$140,131 was incurred for legal services rendered by a law firm, of which a director of the Company is a partner. These transactions are in the normal course of operations and are measured at the exchange amount and is the amount of consideration established and agreed to by the related parties.

**16. Commitments**

The Company signed a guarantee with the HSBC Bank in the UK to secure the soft banking facilities of LCM. The soft facilities include BACS and CHAPS overnight clearing facilities and payroll facilities. The potential liability for overdraft may arise if the overnight clearing facility cleared cheques or transfers up to the maximum daily limit of the facility and there were no current funds in the account to cover those cheques or transfers. There is no overdraft facility at HSBC. The guarantee is limited to £850,000.

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**17. Segmented information**

The Company has two reportable segments: manufacturing and exploration. The manufacturing services segment involves the manufacturing and supply of rare earth based alloys, high purity metals, and ultra-high purity indium. The exploration segment involves the exploration and development of strategic metals, including rare earth elements, base metals and precious metals, for future development of mining operations.

**a) Business segments**

**For the years ended December 31**

	<u>2010</u>			<u>2009</u>		
	<u>Manufacturing</u>		<u>Total</u>	<u>Manufacturing</u>		<u>Total</u>
	<u>Services</u>	<u>Exploration</u>		<u>Services</u>	<u>Exploration</u>	
Sales	\$ 15,139,682	\$ -	\$ 15,139,682	\$ 11,994,734	\$ -	\$ 11,994,734
Cost of Sales	10,648,831	-	10,648,831	8,959,487	-	8,959,487
<b>Gross Margin</b>	<b>4,490,851</b>	<b>-</b>	<b>4,490,851</b>	<b>3,035,247</b>	<b>-</b>	<b>3,035,247</b>
<b>Expenses for six months ended June 30, 2009</b>						
General and administration	634,783	1,165,658	1,800,441	541,082	897,307	1,438,389
Wages and benefits	2,188,477	1,638,968	3,827,445	1,622,648	1,264,735	2,887,383
Stock based incentives	-	2,135,569	2,135,569	-	2,175,262	2,175,262
Property research	-	91,150	91,150	-	30,757	30,757
Professional fees	109,719	325,522	435,241	47,397	413,412	460,809
Investor relations	-	584,348	584,348	-	224,920	224,920
Other direct overhead	1,160,267	171,618	1,331,885	970,983	112,540	1,083,523
	<b>4,093,246</b>	<b>6,112,833</b>	<b>10,206,079</b>	<b>3,182,110</b>	<b>5,118,933</b>	<b>8,301,043</b>
<b>Earnings (loss) before undernoted items</b>	<b>397,605</b>	<b>(6,112,833)</b>	<b>(5,715,228)</b>	<b>(146,863)</b>	<b>(5,118,933)</b>	<b>(5,265,796)</b>
Depreciation	(994,059)	(49,221)	(1,043,281)	(945,778)	(72,399)	(1,018,177)
Interest expense	(441,127)	(1,047,295)	(1,488,422)	(635,082)	(577,509)	(1,212,591)
Interest income	75,488	299,889	375,377	296,019	111,601	407,621
Other income	-	239,617	239,617	56	113,424	113,480
Flow through shares	-	-	-	-	(500,000)	(500,000)
Exchange (Gain) Loss	33,589	(264,266)	(230,676)	(178,023)	115,408	(62,615)
Loss on abandonment - mineral properties	-	(8,064,478)	(8,064,478)	-	(10,600)	(10,600)
Gain on disposal of assets	5,129	(262,887)	(257,758)	-	191,340	191,340
	<b>(923,375)</b>	<b>(15,261,474)</b>	<b>(16,184,849)</b>	<b>(1,609,671)</b>	<b>(5,747,668)</b>	<b>(7,357,338)</b>
Current income tax expense	(232,625)	(27,457)	(260,082)	8,337	-	8,337
Future income tax (recovery)	111,646	-	111,646	-	394,026	394,026
<b>Net Loss</b>	<b>\$ (1,044,354)</b>	<b>\$ (15,288,931)</b>	<b>\$ (16,333,285)</b>	<b>\$ (1,601,334)</b>	<b>\$ (5,353,642)</b>	<b>\$ (6,954,975)</b>

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**17. Segmented information** (continued)

**b) Geographic segments**

<b>Revenue detail</b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Canada		
Interest	\$ 299,889	\$ 111,601
Rental	239,617	113,424
United States		
Service	676,800	483,230
United Kingdom		
Interest	75,488	296,019
Service	14,462,882	11,511,560
	<b><u>\$ 15,754,676</u></b>	<b><u>\$ 12,515,834</u></b>
<b>Assets</b>		
Canada		
Cash and other equivalents	9,169,902	1,132,438
Cash in trust	14,880,761	-
Capital Assets	105,369	81,275
Mineral Properties	17,029,557	12,891,119
Investment in Vaaldiam Resources Ltd.	156,439	225,633
Investment in Rare Earth Extraction Co	5,501,552	-
Goodwill & Intangibles	385,690	385,690
	<b><u>47,229,270</u></b>	<b><u>14,716,155</u></b>
United States		
Cash and other equivalents	444,112	247,926
Capital Assets	693,733	1,150,290
Mineral Properties	-	6,935,428
	<b><u>1,137,845</u></b>	<b><u>8,333,644</u></b>
United Kingdom		
Cash and other equivalents	5,834,399	4,200,710
Capital Assets	1,464,109	2,085,495
Goodwill	2,274,463	2,274,463
Intangibles	1,275,509	1,445,576
	<b><u>10,848,480</u></b>	<b><u>10,006,244</u></b>
	<b><u>\$ 59,215,595</u></b>	<b><u>\$ 33,056,043</u></b>

**GREAT WESTERN MINERALS GROUP LTD**

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**18. Financial instruments**

**Fair value of financial instruments:**

The fair value of a financial instrument is the price at which a party would accept the rights and/or obligations of the financial instrument from an independent third party. Given the varying influencing factors, the reported fair values are only indicators of the prices that may actually be realized for these financial instruments. Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data

The Company recorded at fair value the following financial instruments under Level 1 of the fair value hierarchy, as at December 31, 2010: Cash and cash equivalents, cash in trust, investment in Vaaldiam Mining Inc., accounts receivable, demand loan, accounts payable and accrued liabilities. The fair value of the investment in Rareco approximates its carrying value as of December 31, 2010.

**Financial risk management**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash, receivables, investment in Vaaldiam, accounts payable and accrued liabilities.

The fair values of cash, amounts receivable, accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. The investment in Vaaldiam is classified as available-for-sale and accounted for at fair value. Unrealized holding gains and losses on this investment are included in other comprehensive income.

**Financial instrument risk exposure**

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

*Credit Risk*

The Company's credit risk is primarily attributable to cash, cash in trust and accounts receivable. The Company reduces its credit risk by maintaining its bank accounts at large reputable financial institutions. The Company also has credit risk in relation to trade receivables. The Company has mitigated the credit risk through the sale to large international companies with high credit ratings. Historical levels of receivable defaults and overdue balances over normal credit terms are both negligible, thus the credit risk associated with accounts receivables is also considered to be nominal. The maximum exposure to credit risk is equal to the fair value or carry value of the financial assets.

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**18. Financial instruments (continued)**

*Liquidity Risk*

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company ensures that there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company believes that these sources will be sufficient to cover the likely short and long term cash requirements. The Company's cash and equivalents are invested in business accounts and are available on demand for the Company's programs. As at December 31, 2010, substantially all of the Company's financial liabilities and non-financial derivative liabilities mature within one year.

*Market Risk*

- a) Interest Rate Risk – The cash and demand loan bear interest at a variable rate and the Company is, therefore, exposed to the risk of changes in fair value resulting from interest rate fluctuations. The Company's other financial assets and liabilities do not comprise any interest rate risk since they do not bear interest. Fluctuations of market interest rates have no material impact on the Company's financial results.
- b) Foreign Currency Risk – The Company has foreign currency risk due to fluctuations in foreign currency rates as it has significant transactions in foreign currencies, primarily UK Pound Sterling and US dollars. The Company closely monitors foreign currency balances to minimize the risk of foreign currency losses.
- c) Price Risk – The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

**19. Capital disclosure**

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments. In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary. The annual budgets are approved by the Board of Directors. In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to invest its cash in highly liquid, short-term interest-bearing investments with an initial term to maturity of twelve months or less.

**GREAT WESTERN MINERALS GROUP LTD**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**For the years ended December 31, 2009 and 2010**

(Canadian dollars)

**20. Contingent liability**

The Company has provided an indemnification to subscribers of flow-through shares in an amount equal to the income tax that would be payable by subscribers in the event, and as a consequence, of the Company not incurring and renouncing qualifying CEE as required under the subscription agreement. Companies must pay Part XII.6 tax in respect of each month in the year of renunciation equal to the balance of funds in respect of the renunciation that have not been spent on qualifying CEE times the current prescribed interest rate. If funds remain unspent at the end of the year, there is an extra tax levy of 1/10 of the unspent balance.

The Company is contingently liable for any tax that will be payable by subscribers as a result of not incurring \$3,569,574 of qualifying CEE by December 31, 2009. The amount of the liability to the subscribers is undeterminable at this time.

**21. Subsequent events**

Subsequent to the year end, the Company announced the results of its all cash offer to Rare Earth Extraction Co. Limited (Rareco) as stated in Note 3. At the closing date of February 28, 2011, the Company had purchased an additional 29,596,032 Rareco shares for consideration of \$11,842,918 and now has received and paid for 44,218,009 of the 47,764,700 Rareco shares outstanding at November 18, 2010, the date of the original offer to purchase, for total consideration of \$17,344,470. This represents 92.6% of the outstanding ordinary shares of Rareco.

Subsequent to December 31, 2010 the company has received and executed 17,492,828 warrants which have been converted into 17,492,828 common shares of the company. The Company has received \$8,215,781 in cash as consideration of the exercise of these warrants.

With respect to the Chaleur project, on February 11, 2011 the Company signed an Agreement with Cornerstone Capital Resources Inc. which modified the original Letter of Intent. Under the new terms of the agreement the size of the subject property has increased from 200 mineral claims to 380 claims and, as a result, the underlying payment and work commitments have been revised. The Company fulfilled its initial commitments under the letter of intent by issuing to Cornerstone 25,000 shares of the Company and expending a minimum of \$50,000 on exploration. Upon execution of the option agreement, the Company made a cash payment to Cornerstone of \$35,000 and will issue an additional 65,000 shares of the Company following receipt of regulatory approval. The Company may elect to make further payments of cash and shares totaling \$755,000 and 340,000 respectively during the next three years and incur additional exploration expenditures totaling \$1,350,000. The parties will then form a joint venture to further explore and develop mineral resources on the property. The Company is operating the exploration programs during the option period in conjunction with their on-going Benjamin River project located adjacent to the Chaleur property.

**22. Comparative figures**

Certain prior year balances have been reclassified to conform to the current financial statement presentation.