

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(unaudited)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011
(Canadian dollars)

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GreatWestern
MINERALS GROUP LTD



GreatWestern
TECHNOLOGIES INC

LCM
less common metals

Rare Earth Extraction Co. Limited



Exploration



Mining



Processing

GREAT WESTERN MINERALS GROUP LTD

Condensed Consolidated Statements of Financial Position

(unaudited)

(in Canadian dollars)

	Sep 30 2011 \$	As at Dec 31 2010 \$	Jan 1 2010 \$
Assets			
Current assets			
Cash	5,318,610	9,181,458	1,164,764
Cash in trust (Note 5)	102,731	14,880,761	-
Accounts receivable	3,885,399	3,956,785	1,834,675
Inventories	4,754,757	1,987,887	2,212,461
Deposits and prepaid expenses	418,749	322,284	369,174
	14,480,246	30,329,175	5,581,074
Investment in Vaaldiam Mining Inc. (Note 6)	-	156,439	225,633
Investment in Rare Earth Extraction Co. (Note 7)	-	5,501,552	-
Mineral properties (Note 8)	44,648,957	17,029,557	19,826,547
Property, plant and equipment (Note 9)	2,333,546	2,263,211	3,317,060
Intangible assets	2,486,409	1,275,509	1,445,576
Goodwill	2,660,153	2,660,153	2,660,153
	66,609,311	59,215,596	33,056,043
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	2,818,707	2,008,428	2,924,280
Demand loan (Note 10)	-	1,499,956	596,635
Income tax payable	734,130	233,002	27,845
Current portion of long-term debt (Note 10)	-	-	1,215,174
	3,552,837	3,741,386	4,763,934
Deferred gain on sale of property	-	-	178,051
Deferred income taxes	653,452	748,807	860,453
	4,206,289	4,490,193	5,802,438
Shareholders' Equity			
Share capital (Note 13)	92,137,339	76,799,050	47,679,900
Warrants (Note 13)	11,828,075	15,599,177	1,315,121
Contributed surplus (Note 13)	10,170,128	4,989,912	4,114,807
Cumulative other comprehensive income (loss)	1,184,927	(479,169)	(5,941)
Deficit	(52,917,447)	(42,183,567)	(25,850,282)
	62,403,022	54,725,403	27,253,605
	66,609,311	59,215,596	33,056,043

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board

"Ian McNaughton"

Director

"Jim Enqdahl"

President and CEO

GREAT WESTERN MINERALS GROUP LTD

Condensed Consolidated Interim Statements of Comprehensive Loss

(unaudited)

(in Canadian dollars)

	For the three months ended Sep 30,		For the nine months ended Sep 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Sales	4,215,250	3,380,863	13,630,390	10,613,654
Cost of sales	<u>2,558,967</u>	<u>2,482,022</u>	<u>8,995,153</u>	<u>7,467,981</u>
Gross margin	<u>1,656,283</u>	<u>898,841</u>	<u>4,635,237</u>	<u>3,145,673</u>
Operating Expenses				
General and administration	1,147,855	386,615	2,791,774	1,139,583
Wages and benefits	1,390,461	767,565	3,434,192	2,314,747
Stock based compensation	2,023,624	-	5,554,038	315,452
Property research	67,873	40,237	431,337	59,719
Professional fees	158,484	64,936	418,186	206,092
Investor relations	83,654	148,156	403,542	475,724
Other direct overhead	<u>352,256</u>	<u>336,476</u>	<u>969,690</u>	<u>1,015,103</u>
Total operating expenses	<u>5,224,207</u>	<u>1,743,985</u>	<u>14,002,759</u>	<u>5,526,420</u>
Loss before undernoted items	(3,567,924)	(845,144)	(9,367,522)	(2,380,747)
Depreciation and amortization	(248,408)	(243,241)	(707,235)	(721,074)
Interest expense	(194,663)	(112,960)	(527,810)	(299,863)
Interest income	231,536	69,978	590,337	196,136
Other income (loss)	(22,940)	170,661	(276,986)	241,738
Exchange gain (loss)	<u>150,853</u>	<u>(87,760)</u>	<u>140,086</u>	<u>(102,278)</u>
Loss before income taxes	(3,651,546)	(1,048,466)	(10,149,130)	(3,066,088)
Current income tax expense	<u>(228,935)</u>	<u>(41,322)</u>	<u>(584,750)</u>	<u>(226,385)</u>
Net loss	<u>(3,880,481)</u>	<u>(1,089,788)</u>	<u>(10,733,880)</u>	<u>(3,292,473)</u>
Other comprehensive income (loss):				
Unrealized loss on available for sale investments	-	-	-	(132,371)
Translation adjustment	<u>(5,954)</u>	<u>11,141</u>	<u>1,664,096</u>	<u>(3,397,694)</u>
Other comprehensive income (loss)	<u>(5,954)</u>	<u>11,141</u>	<u>1,664,096</u>	<u>(3,530,065)</u>
Net loss and OCL	<u>(3,886,435)</u>	<u>(1,078,647)</u>	<u>(9,069,784)</u>	<u>(6,822,538)</u>
Basic and fully diluted loss per share	<u>(0.010)</u>	<u>(0.004)</u>	<u>(0.029)</u>	<u>(0.014)</u>
Weighted average number of shares outstanding	<u>383,116,211</u>	<u>243,520,992</u>	<u>370,965,504</u>	<u>239,087,368</u>

The accompanying notes are an integral part of these consolidated financial statements.

GREAT WESTERN MINERALS GROUP LTD

Condensed Consolidated Interim Statements of Cash Flow

(unaudited)

(in Canadian dollars)

	For the three months ended Sep 30,		For the nine months ended Sep 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash provided by (used in)				
Operating activities				
Net loss for the period	(3,880,481)	(1,089,788)	(10,733,880)	(3,292,473)
Non-cash items				
Amortization of property, plant and equipment	248,408	243,241	707,235	721,074
Stock based compensation	2,023,624	-	5,554,038	315,452
Deferred loss on sale of property	-	(157,894)	-	(183,180)
Interest on convertible debenture paid with shares	-	-	-	561,842
Write down of Vaaldiam Mining investment	-	(18,051)	84,236	39,110
Write down of mineral properties	-	-	165,359	-
Foreign exchange loss (gain) on convertible debenture paid with shares	-	1,705	-	(1,569)
Net change in working capital	<u>1,483,868</u>	<u>(749,587)</u>	<u>(2,413,491)</u>	<u>(1,835,912)</u>
	<u>(124,581)</u>	<u>(1,770,374)</u>	<u>(6,636,503)</u>	<u>(3,675,656)</u>
Investing activities				
Mineral properties	(5,551,156)	(5,298,531)	(11,971,079)	(6,710,788)
Property, plant and equipment	(84,883)	(47,814)	(311,593)	(97,507)
Cash acquired from acquisition of Rareco	-	-	148,857	-
	<u>(5,636,039)</u>	<u>(5,346,345)</u>	<u>(12,133,815)</u>	<u>(6,808,295)</u>
Financing activities				
Issuance of share capital, net of costs	837,330	486,001	14,907,470	7,733,926
Proceeds of issuance of debentures	-	5,000,000	-	5,000,000
Repayment of long-term debt	-	(522,075)	-	(1,508,420)
	<u>837,330</u>	<u>4,963,926</u>	<u>14,907,470</u>	<u>11,225,506</u>
Net increase in cash during the period	(4,923,290)	(2,152,793)	(3,862,848)	741,555
Cash, beginning of period	<u>10,241,900</u>	<u>4,059,112</u>	<u>9,181,458</u>	<u>1,164,764</u>
Cash, end of period	<u>5,318,610</u>	<u>1,906,319</u>	<u>5,318,610</u>	<u>1,906,319</u>

The accompanying notes are an integral part of these consolidated financial statements.

GREAT WESTERN MINERALS GROUP LTD

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

(unaudited)

(in Canadian dollars)

	For the nine months ended Sep 30,	
	2011 \$	2010 \$
Share capital (Note 13)		
Beginning balance	76,799,050	47,679,900
Exercise of stock options	520,090	2,510,168
Exercise of warrants	13,878,952	71,250
Non cash share issue	985,500	1,240,872
Equity issuances	-	8,050,000
Share issue costs	<u>(46,253)</u>	<u>(891,356)</u>
Ending balance	<u>92,137,339</u>	<u>58,660,834</u>
Warrants (Note 13)		
Beginning balance	15,599,177	1,315,121
Grant of warrants	-	279,127
Exercise of warrants	<u>(3,771,102)</u>	<u>(160,055)</u>
Ending balance	<u>11,828,075</u>	<u>1,434,193</u>
Options (Note 13)		
Beginning balance	4,989,912	4,114,807
Grant of options	5,554,038	315,452
Exercise of options	<u>(373,822)</u>	<u>(73,917)</u>
Ending balance	<u>10,170,128</u>	<u>4,356,342</u>
Cumulative other comprehensive income (loss) (OCI)		
Beginning balance	(479,169)	(5,931)
Unrealized loss on available for sale investments	-	(132,371)
Translation adjustment	<u>1,664,096</u>	<u>(3,397,694)</u>
Ending balance	<u>1,184,927</u>	<u>(3,535,996)</u>
Deficit		
Beginning balance	(42,183,567)	(25,850,282)
Net loss	<u>(10,733,880)</u>	<u>(3,292,473)</u>
Ending balance	<u>(52,917,447)</u>	<u>(29,142,755)</u>
End of period shareholders' equity	<u>62,403,022</u>	<u>31,772,618</u>

The accompanying notes are an integral part of these consolidated financial statements.

GREAT WESTERN MINERALS GROUP LTD

Notes to the Condensed Consolidated Interim Financial Statements
(unaudited)

Interim Financial Statements as at September 30, 2011

(stated in Canadian dollars, unless otherwise stated)

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. The Company is in the development stage with respect to its interests in mineral properties.

The condensed consolidated interim financial statements of the Company as at and for the nine months ended September 30, 2011 are comprised of the Company and its subsidiaries (collectively "the Company"), Less Common Metals Ltd. ("LCM"), LCMG Limited ("LCMG"), Great Western Technologies Inc. ("GWTI"), GWUS Inc. ("GWUS") and Rare Earth Extraction Co. Limited ("Rareco"), as detailed in Note 14. The Company is the ultimate parent.

LCM, located in Birkenhead, United Kingdom, is a leading global manufacturer and supplier of rare earth based alloys, high purity metals, and ultra-high purity indium. GWTI, located in Troy, Michigan, is a manufacturer and producer of specialty alloys, powders and related value added products. Alloys produced by LCM and GWTI include those containing copper, nickel, cobalt and rare earth elements ("REE") used in the aerospace, automobile, industrial, computer and high-tech industries. Refined REE are high-value products used as catalysts and in high-technology applications that utilize the REE unique and exceptional magnetic, optical and electronic properties. In particular, they are critical to many alternate energy applications including fuel cells, rechargeable batteries, hydrogen storage materials and permanent magnets. The automotive industry, and in particular the hybrid vehicle sector, are major consumers of REE.

Rareco is an entity whose primary asset is an investment in Steenkampskraal Monazite Mine Ltd., a REE and thorium deposit at Steenkampskraal (Rareco's past-producing mine site) located 350 km north of Cape Town, which is being refurbished and developed to be in full production in early 2013.

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 nine months ended September 30, 2011, the Company reported an after-tax loss of \$10,733,880, an accumulated deficit of \$52,917,447, and working capital of \$10,927,408. The Company has not generated positive cash flow from consolidated operations.

The Company has incurred 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. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Company's third IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 *First-time*

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(stated in Canadian dollars, unless otherwise stated)

Adoption of International Financial Reporting Standards has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition of IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 20. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under Canadian GAAP to those reported for those periods and at the date of transition under IFRS.

These condensed consolidated interim financial statements were approved by the Board of Directors on November 22, 2011.

a) Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for available-for-sale financial assets which are measured at fair value.

b) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

c) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements. In particular, the significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements are: asset and investment valuations; property, plant and equipment useful lives; and other liabilities.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

a) Basis of consolidation

i) Business Combinations

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, the Company measures goodwill at the acquisition date as the fair value of the consideration transferred including the recognized amount of any non-controlling interests in the acquire, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the

GREAT WESTERN MINERALS GROUP LTD

Notes to the Condensed Consolidated Interim Financial Statements
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(stated in Canadian dollars, unless otherwise stated)

Company incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to January 1, 2010

As part of its transition to IFRSs, the Company elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under the Company's previous accounting framework, Canadian GAAP.

ii) Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls an entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases.

The accounts of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies.

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.

iii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

b) Foreign currency translation

i) Functional currency

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates (the "functional currency"). The functional currency for the Company is the Canadian dollar ("Canadian dollar"); the functional currency for LCM is the United Kingdom pound sterling ("UK sterling"); the functional currency for Rareco is the South African rand ("ZAR"); and the functional currency for GWTI is the United States dollar ("US dollar").

ii) Foreign currency transactions

Foreign currency transactions are translated into the Company's functional currency of the Company's subsidiaries at exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of comprehensive loss.

iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at the dates of the transactions.

c) Financial instruments

i) Non-derivative financial assets

The Company initially recognizes loans and receivables and deposits on the date that they are originated.

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(stated in Canadian dollars, unless otherwise stated)

All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

ii) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

iii) Available-for-sale investments

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. The Company's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments are recognized in other comprehensive income.

iv) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

The Company recognizes the financial liability initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective method.

v) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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.

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(stated in Canadian dollars, unless otherwise stated)

d) Inventories

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

e) 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 holds the right to explore and develop on properties in the United States of America and South Africa.

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 and 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.

f) Property, plant and equipment

Property, plant and equipment are recorded at historical cost less amortization. Historical cost includes expenditures directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to expense during the reporting period in which they are incurred.

Assets are amortized using the straight-line method as follows:

Computer equipment	5 years
Plant equipment	5 or 10 years
Furniture	6 or 10 years
Leasehold improvements	5 to 40 years

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated statements of comprehensive loss.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to expense using the straight-line basis over the period of the lease.

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g) 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.

h) 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.

i) Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are expensed as incurred except for expenditures associated with the acquisition of exploration and evaluation assets through a business combination or an asset acquisition. Costs incurred before the Company has obtained the legal rights to explore an area are charged to expense.

Property acquisition costs are only capitalized to the extent these costs relate directly to operational activities in the relevant area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves.

j) Impairment of assets

Assets subject to depreciation are tested for impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

k) Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid to establish loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

Compound financial instruments issued by the Company include convertible debentures that can be converted at a fixed conversion rate to share capital at the option of the holder. The liability component of convertible debentures is recognized at the fair value of a similar liability that does not have an equity conversion option. The conversion component is valued at fair value based on generally accepted valuation techniques.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability, or a portion of the liability, for at least 12 months after the reporting date.

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(stated in Canadian dollars, unless otherwise stated)

Borrowing costs incurred for the construction of a qualifying asset are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

l) Current and deferred taxes

Income tax expense for the period includes current and deferred income taxes. Tax expense or benefit is recognized in the consolidated statements of comprehensive loss, except to the extent it relates to items recognized in other comprehensive income or directly in reserves. In such cases, associated income tax is recognized in other comprehensive loss or directly in reserves.

The current income tax change is calculated on the basis of tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and the respective carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liabilities where the timing of the reversals of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

m) Flow-through shares

The Company finances a portion of its exploration activities through the issuance of flow-through shares. Upon the sale of flow-through shares, the Company recognizes a liability for the excess purchase price paid by the investors over the fair value of common shares without the flow-through feature (the "premium") and records the fair value of the shares in equity. When the tax deduction of the expenditures is renounced to the investor, the liability is reversed and a deferred tax liability is recorded for the amount of the benefits renounced to the investors. To the extent the Company has unrecognized tax benefits from loss carry forwards or other tax pools in excess of book value the Company will offset the future income tax liability resulting in the premium being recognized in the statement of income and comprehensive income.

n) Share-based compensation

The Company has a stock option plan that is described in Note 13. 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.

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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.

o) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

An obligation to incur decommissioning and reclamation costs generally occurs when an environmental disturbance is caused by exploration, evaluation, development or ongoing production. Costs are estimated on the basis of a formal closure plan and are subject to regular review.

Decommissioning and site reclamation costs arising from the installation of plant and other site preparation work, discounted to present value, are provided when the obligation to incur such costs arises and are capitalized into the cost of the related asset. These costs are charged through depreciation and/or depletion of the asset and unwinding of the discount on the provision.

p) 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.

q) 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.

4. Financial risk management

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

a) 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

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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.

b) 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 March 31, 2011 substantially all of the Company's financial liabilities and non-financial derivative liabilities mature within one year.

c) Market risk

i) Interest rate risk

The cash and the 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.

ii) 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 Canadian dollar, UK Pound Sterling, ZAR and US dollar. The Company closely monitors foreign currency balances to minimize the risk of foreign currency losses.

iii) Other 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.

d) Fair value of financial instruments

The fair value of a financial instrument is the price at which a part 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:

- i) Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
- ii) Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- iii) 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

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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.

e) Capital 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, investments, accounts payable and accrued liabilities.

The fair values of cash, accounts receivable, accounts payable and accrued liabilities approximate their book values because of the short-term nature of these instruments. The investment in Vaaldiam Mining Inc. 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.

5. Cash in trust

Cash in trust is held in South Africa by legal counsel.

6. 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 at June 30, 2011 was \$84,236 and it was written off in Q2 of 2011 due to limited future earnings potential.

7. Investment in Rare Earth Extraction Co. Ltd.

The Company purchased 10,000,000 ordinary shares of 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 the Company at a price of ZAR3.00 per share. 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.

As of February 28, 2011, the Company had purchased 44,218,009 Rareco shares for consideration of \$17,344,470, and at July 12, 2011 the Company has received and paid for all of the 47,764,700 Rareco shares outstanding at November 18, 2010, the date of the original offer to purchase, for total consideration of \$23,265,482.

This purchase was originally recorded in December 31, 2010 financial statements as an investment as the Company's investment was less than a controlling interest in Rareco. In the first quarter of 2011 the Company acquired sufficient shares to have a controlling interest and therefore the financial statements for the quarter ended March 31, 2011 and subsequent quarters reflect the investment in mineral properties for the value of the purchase.

Rareco owns a 74% equity interest in the Steenkampskraal Monazite Mine Ltd. ("SMM"), the company that is established to develop and operate the Steenkampskraal mine property. The balance of 26% of SMM is held by a Black Economic Empowerment trust established to comply with government regulations in South Africa. See Note 19 for subsequent events.

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8. Mineral properties

	Douglas River	Hoidas Lake	Deep Sands	Steenkam- pskraal	Benjamin River	Red Wine	Chaleur	Other	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Balance									
Dec 31, 2010	1,047,794	11,861,419	-	1,435,914	968,928	1,594,375	112,537	8,590	17,029,557
Expenditures									
Acquisition	-	-	-	24,301,861	-	800,000	10,962	-	25,112,823
Pre-feasibility	-	-	-	104,282	-	-	-	-	104,282
Geology	110,550	-	-	-	140,570	4,537	835	84,641	341,133
Exploration	227,896	224,613	-	809,481	85,300	290,168	41,025	548,038	2,226,521
Write downs	-	-	-	-	-	-	(165,359)	-	(165,359)
Balance									
Sep 30, 2011	1,386,240	12,086,032	-	26,651,538	1,194,798	2,689,080	-	641,269	44,648,957

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

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a) Douglas River

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

In 2010, the Company 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. The results of the 2010 work program were announced in a news release dated June 16, 2011. The 2011 exploration program commenced in June 2011, and includes a large-scale biogeochemical survey, a mini-drill program totaling 18 holes and prospecting.

b) 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. In March 2011, a large sample of Hoidas Lake mineralized material was shipped to a laboratory in Guangzhou, China for mini-pilot plant scale testwork and the final phase of metallurgical testing.

In May 2011, Barr Engineering Co. was contracted to update the NI 43-101-compliant Technical Report on Hoidas Lake, originally filed on SEDAR in November 2009.

c) Deep Sands

The Company holds a 25% interest in 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.

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.

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d) Steenkampskraal

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

Under the terms of the agreement, the Company 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, the Company and Rareco entered into an Exclusivity Agreement whereby the Company 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 facilitating the receipt of all necessary governmental and regulatory approvals for the Company'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, the Company entered into the Offtake Agreement. Under the terms of the Offtake Agreement, Rareco has agreed to sell and deliver, and the Company has 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 offtake 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 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 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.

On May 6, 2011 the Steenkampskraal project received full approval for its work program from the South African National Nuclear Regulator under the existing Nuclear Authorization granted to the project.

In June 2011, a contract was entered into for shaft refurbishment, which included refurbishment of the mine access decline, construction of winding gear, installation of dewatering pumps and the refurbishment of the ore bin. Additionally, all infrastructure services will be installed throughout the underground mine area. This work is well underway.

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In July 2011, detailed design of the processing plant began. The processing plant, as the first step in the production process in which rare earth ore is converted into rare earth chlorides, will be located at the Steenkampskraal mine site. The plant detailed design project is expected to be completed by December, 2011. Also in July 2011, the Company began planning a separation plant to be located in South Africa through a proposed new joint venture company.

In September 2011, drilling from surface for grade confirmation, metallurgical testwork for plant design and for exploration commenced. Both diamond drills and reverse circulation drills will be utilized.

As of July 12, 2011, the Company has acquired 100% of Rareco shares, the cost of the acquisition mainly assigned to mineral properties.

See Note 7 for details of the acquisition of Rareco shares.

e) 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 an 800 metre long strike, with an apparent width of up to 50 metres. As part of the agreement, the Company has staked an additional 436 claims (approximately 9500 ha). Under the terms of the agreement, the Company paid to the vendor \$5,000 cash plus issued 100,000 common shares of the Company in January 2009, paid \$10,000 cash plus issued 50,000 common shares on the first anniversary and paid \$30,000 cash on the second anniversary. Further, the Company must pay \$50,000 cash on the third anniversary; \$100,000 cash on the fourth anniversary, and a final payment of \$300,000 cash on the fifth anniversary date. Upon completion of the prescribed payments, the Company 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.

In the first half of 2011, a large biogeochemical survey was carried out over two additional areas of interest on the property. Initial results of this survey identified a large anomaly in one area but complete results are still pending.

f) 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")

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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.

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. The option has been terminated.

g) 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 which was paid on 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 issued on 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 \$750,000 was 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.

In June 2011, the Company announced that it had met its work commitment obligations and intended to accelerate its earn-in for a 50% working interest in the property by issuing the last instalment of 500,000 common shares and making a \$100,000 cash payment. The two companies will now enter into a formal joint venture agreement which is being drafted.

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.

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In September and October of 2010 10 drill holes (1,890m) tested the Cabernet and Pinot Rose showings. At the Cabernet showing, five drill holes (1009 m) tested the mineralization. Two types of mineralization were observed in drill core. Type 1 mineralization comprises disseminated eudialyte and eudialyte pods and veins in syenitic and pyroxenitic gneisses. Type 2 mineralization is characterized by an absence of eudialyte, and the mineralization present comprises disseminated, unidentified REE minerals in amphibole-pyroxene-nepheline gneiss.

Five exploration holes were drilled at the Pinot Rose showing, where eudialyte-bearing veins and pods (mineralization type 1) occur at surface in syenitic gneisses. Similar small veins and pods were observed at depth in association with disseminated eudialyte mineralization.

The results of the 2010 drilling were announced in a news release dated March 7, 2011.

Three metallurgical samples have been collected and sent to Xstrata for metallurgical/mineralogical studies. Two samples have been collected from the Cabernet showing, one being from eudialyte-bearing mineralization (Type 1) and the second from eudialyte-absent mineralization (Type 2). The third sample was collected from eudialyte-bearing mineralization (Type 1) at the Malbec showing, which is 1 km northwest of the Cabernet showing.

Work on the property is continuing and includes additional drilling.

h) 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 guaranteed minimum 2010 expenditures of \$50,000, sufficient to maintain the property in good standing. Thereafter, the Company 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.

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 issued an additional 40,000 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

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operating the exploration programs during the option period in conjunction with their on-going Benjamin River project located adjacent to the Chaleur property.

Subsequent to modifying the original Letter of Intent, the results of the 2010 work were received, compiled and interpreted. Based on this analysis it was determined that the project did not warrant further work and the agreement with Cornerstone was terminated. Management has no plans to pursue the exploration on this property, and in 2011 wrote off all costs relating to the property aggregating \$165,359.

9. Property, plant and equipment

	Computer Equipment \$	Furniture \$	Motor Vehicles \$	Plant Equipment \$	Leasehold Improvements \$	Total \$
Cost						
Balance at January 1, 2010	<u>150,567</u>	<u>55,949</u>	<u>36,744</u>	<u>6,662,567</u>	<u>455,172</u>	<u>7,360,999</u>
Balance at December 31, 2010	<u>173,345</u>	<u>60,875</u>	<u>34,075</u>	<u>6,403,115</u>	<u>431,406</u>	<u>2,263,211</u>
Balance at Sep 30, 2011	<u>230,196</u>	<u>102,454</u>	<u>410,275</u>	<u>6,284,657</u>	<u>450,445</u>	<u>7,478,027</u>
Accumulated Depreciation						
Balance at January 1, 2010	<u>106,609</u>	<u>29,496</u>	<u>33,869</u>	<u>3,687,916</u>	<u>186,050</u>	<u>4,043,910</u>
Balance at December 31, 2010	<u>125,765</u>	<u>38,926</u>	<u>32,350</u>	<u>4,451,229</u>	<u>191,335</u>	<u>4,839,605</u>
Balance at Sep 30, 2011	<u>127,435</u>	<u>44,293</u>	<u>17,420</u>	<u>4,740,596</u>	<u>214,737</u>	<u>5,144,481</u>
Net book amount						
Balance at January 1, 2010	<u>43,958</u>	<u>26,454</u>	<u>2,875</u>	<u>2,974,651</u>	<u>269,122</u>	<u>3,317,060</u>
Balance at December 31, 2010	<u>47,580</u>	<u>21,949</u>	<u>1,725</u>	<u>1,951,886</u>	<u>240,071</u>	<u>2,263,211</u>
Balance at Sep 30, 2011	<u>102,761</u>	<u>58,161</u>	<u>392,855</u>	<u>1,544,061</u>	<u>235,708</u>	<u>2,333,546</u>

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.

10. Borrowings

a) Demand loan

LCM has used 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.

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	Sep 30 2011 \$	Dec 31 2010 \$	Jan 1 2010 \$
Receivables finance facility £530,632	-	875,696	66,386
Inventory facility £501,438	-	624,260	530,249
Total	<u>-</u>	<u>1,499,956</u>	<u>596,635</u>

b) Long term debt

On June 27, 2008, the Company purchased the common shares of LCM. A portion of the purchase price was funded by the Company issuing a convertible debenture to the vendors. The Company 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.

	Sep 30 2011 \$	Dec 31 2010 \$	Jan 1 2010 \$
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 (C\$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 (C\$34,874) principal plus interest for the second year)	-	-	207,315
Total	<u>-</u>	<u>-</u>	<u>1,215,174</u>

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11. 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 are approximately \$168,683 in 2011-2015.

12. Note to the statement of cash flows

During the period, non-cash operating, financing and investing activities included the following:

	Sep 30 2011	Dec 31 2010
Common shares issued for issuance of debentures	-	727,552
Common shares issued for fees on debenture conversion	-	1,012,500
Fair value of stock options and warrants allocated to shares issued on exercise	4,142,630	1,979,545
Common shares issued for interest on LCM debenture	-	20,923
Common shares issued for (gain) loss on LCM debenture conversion	-	9,175
Common shares issued for mineral properties	685,500	100,875
Common shares issued for Byron Capital Management Fee	300,000	60,000
Acquisition of Rareco shares transferred from cash in trust	14,834,130	-

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13. Share capital and share-based payments

a) Share capital

The Company has an unlimited number of common shares, without par value, authorized for issuance.

	<u>Common Shares</u>	
	<u>Number of Shares</u>	<u>Amount \$</u>
Balance – January 1, 2010	201,160,118	47,679,900
Shares issued:		
for mineral properties	550,000	100,875
for placements	134,968,542	29,938,568
on conversion of debentures	3,637,759	727,552
for commitment fee	2,500,000	1,012,500
for special purchase warrants	9,861,371	-
on exercise of warrants	1,589,640	431,457
on exercise of options	1,300,000	371,475
cash issue costs	-	(1,904,679)
non-cash issue costs	-	(1,558,598)
	<hr/>	<hr/>
Balance – December 31, 2010	355,567,430	76,799,050
Shares issued:		
for mineral properties	890,000	685,500
for placements	409,786	300,000
on exercise of warrants	24,851,425	13,878,952
on exercise of options	1,855,100	520,090
cash issue costs	-	(46,253)
	<hr/>	<hr/>
Balance – Sep 30, 2011	<u>383,573,741</u>	<u>92,137,339</u>

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.

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- 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 the Company 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.
- 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.

During 2011, the Company issued the following shares:

- 409,786 common shares with a fair value of \$300,000 in five installments of 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.
- 40,000 common shares with a fair value of \$34,000 as part of the Chaleur joint venture agreement.
- 850,000 common shares with a fair value of \$651,500 were issued as part of the Red Wine project agreement.
- In addition, in 2011 the Company issued 24,851,425 common shares due to warrant conversions for gross proceeds of \$13,878,952, and issued 1,855,100 common shares due to stock option exercises for gross proceeds of \$520,090.

b) 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.

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For options outstanding, weighted average exercise prices are as follows:

	Sep 30, 2011		Dec 31, 2010	
	Number of Options	Average Price	Number of Options	Average Price
		\$		\$
Beginning of year	24,125,000	0.37	17,000,000	0.29
Options granted	9,620,000	0.76	9,950,000	0.49
Options exercised	(1,855,100)	0.27	(1,300,000)	0.19
Options lapsed	(654,900)	0.63	(1,525,000)	0.27
Total options end of period	<u>31,235,000</u>	<u>0.56</u>	<u>24,125,000</u>	<u>0.37</u>

Options outstanding as of September 30, 2011 are as follows:

Expiry Date	Price	Outstanding 2010	Granted	Exercised	Relinquished /Lapsed	Outstanding 2011
April 18, 2011	0.18	600,000		100,000		500,000
September 20, 2011	0.18	350,000		225,100	24,900	100,000
August 3, 2012	0.18	1,125,000		35,000	35,000	1,055,000
October 5, 2012	0.18	650,000		100,000		550,000
October 20, 2012	0.405	100,000				100,000
December 4, 2012	0.18	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		100,000		150,000
October 31, 2013	0.20	3,075,000		600,000	25,000	2,450,000
February 10, 2014	1.05		1,500,000			1,500,000
July 27, 2014	0.18	950,000				950,000
November 9, 2014	0.35	7,075,000		375,000	100,000	6,600,000
June 15, 2015	0.20	3,250,000		250,000		3,000,000
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
January 13, 2016	0.61		4,670,000	70,000	70,000	4,530,000
March 15, 2016	0.69		1,800,000		400,000	1,400,000
July 5, 2016	0.73		450,000			450,000
July 6, 2016	0.80		850,000			850,000
July 21, 2016	0.85		350,000			350,000
		<u>24,125,000</u>	<u>9,620,000</u>	<u>1,855,100</u>	<u>654,900</u>	<u>31,235,000</u>

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.

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c) 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>
Balance - January 1, 2010	16,522,185	\$ 0.26
Granted	71,887,740	0.46
Exercised	(8,964,886)	0.28
Expired	<u>(1,225,973)</u>	<u>0.35</u>
Balance - December 31, 2010	78,219,066	0.44
Granted	-	-
Exercised	(23,600,841)	0.45
Expired	<u>-</u>	<u>-</u>
Balance - Sep 30, 2011	<u>54,618,225</u>	<u>\$ 0.46</u>

d) 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>
Balance - January 1, 2010	2,000,224	\$ 0.224
Granted	8,376,136	0.42
Exercised	<u>(1,589,640)</u>	<u>0.24</u>
Balance - December 31, 2010	8,786,720	0.40
Granted	-	-
Exercised	<u>(1,250,584)</u>	<u>0.28</u>
Balance - Sep 30, 2011	<u>7,536,136</u>	<u>\$ 0.43</u>

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.

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Warrants and broker warrants outstanding as of September 30, 2011 are as follows:

<u>Expiry Date</u>	<u>Price</u>	<u>Outstanding 2010</u>	<u>Granted</u>	<u>Exercised</u>	<u>Relinquished /Lapsed</u>	<u>Outstanding 2011</u>
<u>Warrants</u>						
June 27, 2011	0.30	750,000		750,000		-
October 31, 2011	0.10	172,387		35,131		137,256
December 16, 2011	0.10	2,083,333		2,083,333		-
March 19, 2012	0.10	519,944				519,944
October 31, 2011	0.15	202,386		65,131		137,255
December 16, 2011	0.15	2,083,332		2,083,332		-
March 19, 2012	0.15	519,944				519,944
November 6, 2014	0.50	4,482,439		1,142,285		3,340,154
January 25, 2015	0.50	14,374,998		5,910,049		8,464,949
October 19, 2012	0.45	53,030,303		11,531,580		41,498,723
		<u>78,219,066</u>	<u>-</u>	<u>23,600,841</u>	<u>-</u>	<u>54,618,225</u>
<u>Broker Warrants</u>						
August 25, 2011	0.18	52,500		52,500		-
November 6, 2011	0.28	358,084		198,084		160,000
January 25, 2012	0.28	2,012,500		1,000,000		1,012,500
October 19, 2012	0.45	6,363,636				6,363,636
		<u>8,786,720</u>	<u>-</u>	<u>1,250,584</u>	<u>-</u>	<u>7,536,136</u>

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 53,030,303 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.

e) Contributed surplus

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

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1.21%, an expected life of the options of 3 years, an annualized volatility rate of 95.9% and a dividend rate of nil.

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 100,000 of which had a strike price of \$0.405 exercisable over 2 years, 400,000 of which had a strike price of \$0.405 exercisable over 5 years, and the remaining 600,000 options at a strike price of \$0.40 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.

During the first quarter of 2011, the Company granted 7,970,000 stock options to employees and consultants in three installments. The first grant in January had a strike price for the options of \$0.61 exercisable for a period of 5 years, the second grant in February had a strike price for the options of \$1.05 exercisable for a period of 3 years, and the third grant in March had a strike price for the options of \$0.69 exercisable for a period of 5 years. The value of these options calculated using the Black-Scholes option pricing model described above was \$1,768,260 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: an expected life of the options of 5 years; risk free rates of 1.75%, 2.49% and 2.22%; an annualized volatility rate of 91.7%, 93.3% and 94.6%; and a dividend rate of nil.

During the third quarter of 2011, the Company granted 1,650,000 stock options to employees and consultants in July in three installments. The first grant had a strike price for the options of \$0.73 exercisable for a period of 5 years, the second grant had a strike price for the options of \$0.80 exercisable for a period of 5 years, and the third grant had a strike price for the options of \$0.85 exercisable for a period of 5 years.

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14. Subsidiaries

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. The following subsidiaries are included in these consolidated financial statements:

	Country of Incorporation	Ownership interest		
		Sep 30 2011	Dec 31 2010	Jan 1 2010
Less Common Metals Ltd.	United Kingdom	100%	100%	100%
LCMG Limited	United Kingdom	100%	100%	100%
Great Western Technologies Inc.	United States	100%	100%	100%
GWUS Inc.	United States	100%	100%	100%
Texoro Resources Corporation	United States	100%	100%	100%
Great Western Minerals USA Inc.	United States	100%	100%	100%
Rare Earth Extraction Co. Limited	South Africa	100%	30.6%	-
Rareco Industrial Minerals Ltd.	South Africa	100%	30.6%	-
Uranoop Mining Company Ltd.	South Africa	100%	30.6%	-
Steenkampskraal Monazite Mine Ltd.	South Africa	74%	22.64%	-

Great Western Minerals Group Ltd., located in Saskatoon, Saskatchewan, is the parent of the consolidation.

Less Common Metals Ltd. ("LCM"), located in Birkenhead, United Kingdom, is a leading global manufacturer and supplier of rare earth based alloys, high purity metals, and ultra-high purity indium. LCMG Limited ("LCMG"), located in Birkenhead, United Kingdom, is a holding company of LCM.

Great Western Technologies Inc. ("GWTI"), located in Troy, Michigan, is a manufacturer and producer of specialty alloys, powders and related value added products.

GWUS Inc. ("GWUS"), Texoro Resources Corporation ("Texoro"), and Great Western Minerals USA Inc. ("Great Western US"), all located in the US, are wholly owned subsidiaries that are currently inactive.

Rare Earth Extraction Co. Limited ("Rareco"), located in Capetown, South Africa, is an entity whose primary asset is an investment in a project to produce REE and thorium at the Steenkampskraal Mine in South Africa. Rareco had nominal earnings (loss) in 2010 and the Company's equity share of any earnings (loss) was nominal.

Steenkampskraal Monazite Mine Ltd. ("SMM"), located in South Africa, holds operating ownership of the former-producing Steenkampskraal Mine which is located approximately 70 km north of Vanrhynsdorp, South Africa. In June 2010 SMM was awarded a 20 year Converted Mining Right permit and also holds Nuclear Authorization for the handling of radioactive material for the site.

Rareco Industrial Minerals Ltd. ("RIM"), and Uranoop Mining Company Ltd. ("Uranoop"), both located in South Africa, are wholly owned subsidiaries.

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15. 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.

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.

17. Related party transactions

a) Services rendered

During the period, \$137,310 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. All outstanding balances are settled in cash by their due dates.

	Sep 30 2011	Dec 31 2010
	\$	\$
Total legal services rendered	<u>181,744</u>	<u>140,131</u>

b) Management compensation

During the period, salaries, bonuses, management and consulting fees were paid to directors, officers and companies controlled by common directors.

	Sep 30 2011	Dec 31 2010
	\$	\$
Salaries, bonuses, management and consulting fees		
Included in mineral properties	173,415	121,707
Included in management fees	95,389	153,475
Included in salaries	<u>622,106</u>	<u>656,872</u>
Total	<u>890,910</u>	<u>932,054</u>

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c) Stock based compensation

During the period stock based compensation was issued to directors, officers and companies controlled by common directors.

	Sep 30 2011	Dec 31 2010
Stock options issued to directors and officers:		
June 15, 2010	-	268,590
October 20, 2010	-	59,940
December 1, 2010	-	171,156
December 29, 2010	-	1,455,700
July 5, 2011	100,000	-

The June 15, 2010 grant was for 3,250,000 stock options. The strike price for the options issued was \$0.20 exercisable for a period of 5 years. Share price at grant date was \$0.16. 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.

The October 20, 2010 grant was for 400,000 stock options. The strike price for the options issued was \$0.405 exercisable for a period of 5 years. Share price at grant date was \$0.405. 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.

The December 1, 2010 grant was for 600,000 stock options. The strike price for the options issued was \$0.40 exercisable for a period of 5 years. Share price at grant date was \$0.40. 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.

The December 29, 2010 grant was for 5,000,000 stock options. The strike price for the options issued was \$0.50 exercisable for a period of 5 years. Share price at grant date was \$0.435. 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.

The July 5, 2011 grant was for 450,000 stock options. The strike price for the options issued was \$0.73 exercisable for a period of 5 years. Share price at grant date was \$0.71.

d) Employee loans

During the quarter a loan in the amount of \$171,000 was granted to an officer and director of the Company. Full repayment of the loan is due by September 5, 2014 together with interest payable monthly at HSBC's prime interest rate per annum.

18. Segment information

a) Business segments

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.

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	For the three months ended Sep 30, 2011			For the three months ended Sep 30, 2010		
	Manufacturing Services	Exploration	Total	Manufacturing Services	Exploration	Total
Sales	4,215,250	-	4,215,250	3,380,863	-	3,380,863
Cost of Sales	2,551,270	7,697	2,558,967	2,482,022	-	2,482,022
Gross Margin	1,663,980	(7,697)	1,656,283	898,841	-	898,841
Expenses						
General and administration	196,281	951,573	1,147,855	161,895	224,720	386,615
Wages and benefits	562,017	828,445	1,390,461	456,685	310,881	767,565
Stock based compensation	-	2,023,624	2,023,624	-	-	-
Property research	-	67,873	67,873	-	40,237	40,237
Professional fees	27,184	131,300	158,484	11,875	53,061	64,936
Investor relations	-	83,654	83,654	-	148,156	148,156
Other direct overhead	231,108	121,148	352,256	289,152	47,324	336,476
Total operating expenses	1,016,590	4,207,617	5,224,207	919,607	824,379	1,743,985
Income (loss) before undernoted items	647,390	(4,215,314)	(3,567,924)	(20,766)	(824,379)	(845,144)
Depreciation	(219,736)	(28,673)	(248,409)	(230,323)	(12,918)	(243,241)
Interest expense	(193,238)	(1,425)	(194,663)	(112,816)	(143)	(112,960)
Interest income	29,336	202,201	231,537	27,604	42,375	69,978
Other income	-	(22,940)	(22,940)	-	170,661	170,661
Exchange loss	91,903	58,950	150,853	(57,690)	(30,070)	(87,760)
Income (loss) before income taxes	355,655	(4,007,201)	(3,651,546)	(393,991)	(654,474)	(1,048,466)
Current income tax expense	(228,935)	-	(228,935)	(41,322)	-	(41,322)
Net income (loss)	126,720	(4,007,201)	(3,880,481)	(435,313)	(654,474)	(1,089,788)
	For the nine months ended Sep 30, 2011			For the nine months ended Sep 30, 2010		
	Manufacturing Services	Exploration	Total	Manufacturing Services	Exploration	Total
Sales	13,630,390	-	13,630,390	10,613,654	-	10,613,654
Cost of Sales	8,968,723	26,430	8,995,153	7,467,981	-	7,467,981
Gross Margin	4,661,667	(26,430)	4,635,237	3,145,673	-	3,145,673
Expenses						
General and administration	581,623	2,210,151	2,791,774	456,628	682,955	1,139,583
Wages and benefits	1,707,968	1,726,224	3,434,192	1,461,927	852,820	2,314,747
Stock based compensation	-	5,554,038	5,554,038	-	315,452	315,452
Property research	-	431,337	431,337	-	59,719	59,719
Professional fees	53,363	364,823	418,186	69,956	136,136	206,092
Investor relations	-	403,542	403,542	-	475,724	475,724
Other direct overhead	738,182	231,508	969,690	888,361	126,741	1,015,102
Total operating expenses	3,081,136	10,921,621	14,002,759	2,876,872	2,649,547	5,526,419
Income (loss) before undernoted items	1,580,531	(10,948,053)	(9,367,522)	268,801	(2,649,547)	(2,380,746)
Depreciation	(661,922)	(45,313)	(707,235)	(685,293)	(35,782)	(721,075)
Interest expense	(526,298)	(1,512)	(527,810)	(327,687)	27,824	(299,863)
Interest income	85,174	505,163	590,337	78,646	117,490	196,136
Other income	-	(276,986)	(276,986)	(75,113)	209,453	134,340
Exchange loss	80,053	60,033	140,086	5,120	-	5,120
Income (loss) before income taxes	557,538	(10,706,668)	(10,149,130)	(735,526)	(2,330,562)	(3,066,088)
Current income tax expense	(584,750)	-	(584,750)	(198,928)	(27,457)	(226,385)
Net income (loss)	(27,212)	(10,706,668)	(10,733,880)	(934,454)	(2,358,019)	(3,292,473)

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b) Geographic Segments

The Company has operated in numerous geographic segments, during the reporting periods of these financial statements, in the exploration, production and sale of REE minerals.

	Sep 30, 2011	Sep 30, 2010
Revenue		
Canada		
Interest	496,819	117,490
Rental	15,075	236,618
United States		
Service	455,500	423,917
South Africa		
Interest	8,344	-
Service	-	-
United Kingdom		
Interest	-	-
Service	13,174,891	10,189,737
	<u>14,150,628</u>	<u>10,967,762</u>
Cost of Sales		
United States		
Purchases	222,989	343,122
South Africa		
Purchases	26,430	-
United Kingdom		
Purchases	8,745,734	7,254,235
	<u>8,995,153</u>	<u>7,597,357</u>
Assets		
Canada		
Current assets	903,927	1,607,064
Non-current assets	24,533,700	20,218,666
Total assets	<u>25,437,627</u>	<u>21,825,730</u>
United States		
Current assets	395,416	317,097
Non-current assets	619,166	8,056,266
Total assets	<u>1,014,582</u>	<u>8,373,363</u>
South Africa		
Current assets	1,115,370	-
Non-current assets	22,491,340	-
Total assets	<u>23,606,710</u>	<u>-</u>
United Kingdom		
Current assets	12,065,532	5,957,613
Non-current assets	4,484,860	5,233,049
Total assets	<u>16,550,392</u>	<u>11,190,662</u>
	<u>66,609,311</u>	<u>41,389,755</u>

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	Sep 30, 2011	Sep 30, 2010
Liabilities		
Canada		
Current liabilities	484,864	3,259,300
Non-current liabilities	<u>940,659</u>	<u>3,063,565</u>
Total liabilities	<u>1,425,523</u>	<u>6,322,865</u>
United States		
Current liabilities	3,551	(2,697)
Non-current liabilities	<u>(287,207)</u>	<u>281,946</u>
Total liabilities	<u>(283,656)</u>	<u>279,249</u>
South Africa		
Current liabilities	129,605	-
Non-current liabilities	<u>-</u>	<u>-</u>
Total liabilities	<u>129,605</u>	<u>-</u>
United Kingdom		
Current liabilities	2,934,817	2,930,793
Non-current liabilities	<u>-</u>	<u>84,230</u>
Total liabilities	<u>2,934,817</u>	<u>3,015,023</u>
	<u><u>4,206,289</u></u>	<u><u>9,617,137</u></u>

19. Subsequent events

In November 2011 the Company closed a private placement offering for net proceeds of \$16,303,170. An aggregate of 27,240,050 common shares were issued at a price of \$0.63 per share.

20. Explanation of transition to IFRS

The accounting policies set out in Note 3 have been applied for all periods presented in the condensed consolidated financial statements for the period ended September 30, 2011.

In preparing its opening IFRS statement of financial position, in March 2011, the Company adjusted amounts reported previously in financial statements prepared with Canadian GAAP.

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

Cumulative translation differences

IAS 21, *The Effects of Changes in Foreign Exchange Rates*, would require the Company to calculate currency translation differences retrospectively, from the date a subsidiary or associate was formed or acquired. IFRS 1 provides the option of resetting cumulative translations gains and losses to zero at the transition date. The Company elected to reset cumulative translations losses to zero through opening cumulative deficit at the transition date.

Share-based payments

The Company has elected to not apply IFRS 2 *Share-based payments* retrospectively to share-based payments that have fully vested at the transition date and therefore no transitional adjustment is required. The Company had no settled share-based payments that had not vested and as such at transition an insignificant amount was recognized at the date of transition.

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Business combinations

The application of IFRS 3, *Business Combinations* ("IFRS 3"), requires the restatement of all past business combinations in accordance with IFRS 3. IFRS 1 provides the option to apply IFRS 3 prospectively from the transition date, or from a particular pre-transition date elected by the Company. The Company elected to not restate any past business combinations and to apply IFRS 3 prospectively from the transition date. Any goodwill arising on such business combinations that occurred before the transition date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying the exemption. As a condition under IFRS of applying this exemption, goodwill relating to business combinations occurred prior to January 1, 2010 was tested for impairment even though no impairment indicators were present. No impairment existed at the date of transition.

An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and notes that accompany the tables.

Reconciliation of equity

	Previous GAAP	Effect of transition to IFRSs	IFRSs	Previous GAAP	Effect of transition to IFRSs	IFRSs	Previous GAAP	Effect of transition to IFRSs	IFRSs
	1 January 2010			30 Sep 2010			31 December 2010		
Assets									
Cash	1,164,764		1,164,764	1,906,319		1,906,319	9,181,458		9,181,458
Cash in trust	-		-	-		-	14,880,761		14,880,761
Accounts receivable	1,834,675		1,834,675	3,056,964		3,056,964	3,956,785		3,956,785
Inventories	2,212,461		2,212,461	2,438,099		2,438,099	1,987,887		1,987,887
Deposits and prepaids	369,174		369,174	480,393		480,393	322,284		322,284
Current assets	5,581,074		5,581,074	7,881,775		7,881,775	30,329,175		30,329,175
Investment in Rareco	-		-	3,054,107		3,054,107	5,501,552		5,501,552
Investment in Vaaldium	225,633		225,633	186,523		186,523	156,439		156,439
Mineral properties	19,826,547		19,826,547	23,517,192		23,517,192	17,029,557		17,029,557
Property, plant & equip.	3,317,060		3,317,060	2,771,981		2,771,981	2,263,211		2,263,211
Intangible assets	1,445,576		1,445,576	1,318,025		1,318,025	1,275,509		1,275,509
Goodwill	2,660,153		2,660,153	2,660,153		2,660,153	2,660,153		2,660,153
Total assets	33,056,043		33,056,043	41,389,756		41,389,756	59,215,596		59,215,596
Liabilities									
Accounts payable	2,924,280		2,924,280	1,666,948		1,666,948	2,008,428		2,008,428
Demand loan	596,635		596,635	1,294,581		1,294,581	1,499,956		1,499,956
Income tax payable	27,845		27,845	221,199		221,199	233,002		233,002
Current long-term debt	1,215,174		1,215,174	5,007,780		5,007,780	-		-
Current liabilities	4,763,934		4,763,934	8,190,508		8,190,508	3,741,386		3,741,386
Deferred gain on sale	178,051		178,051	-		-	-		-
Future income taxes	860,453		860,453	1,426,629		1,426,629	748,807		748,807
Total liabilities	5,802,438		5,802,438	9,617,137		9,617,137	4,490,193		4,490,193
Shareholders' Equity									
Share Capital (Note 1)	49,212,355	(1,532,455)	47,679,900	57,505,946	(1,532,455)	55,973,491	78,331,506	(1,532,455)	76,799,050
Warrants	1,315,121		1,315,121				15,599,177		15,599,177
Contributed Surplus	4,114,807		4,114,807	5,790,536		5,790,536	4,989,912		4,989,912
Cumulative OCL (Note 2 and 3)	542,766	(548,707)	(5,941)	(3,535,996)	(548,707)	(4,084,703)	69,537	(548,707)	(479,169)
Deficit (Note 3)	(27,931,444)	2,081,162	(25,850,282)	(27,987,867)	2,081,162	(25,906,705)	(44,264,729)	2,081,162	(42,183,567)
Total equity	27,253,605		27,253,605	31,772,619		31,772,619	54,725,403		54,725,403
Total liabilities and equity	33,056,043		33,056,043	41,389,756		41,389,756	59,215,596		59,215,596

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The following is a reconciliation of the Company's Canadian GAAP statement of income and comprehensive income to IFRS for the six month period ended June 30, 2010 and the twelve month period ended December 31, 2010:

Reconciliation of comprehensive income

	<u>Nine months ended 30 Sep 2010</u>	<u>Year ended 31 December 2010</u>
Net and comprehensive income (loss) for the period under Canadian GAAP	(3,292,473)	(16,806,514)
Basic and diluted loss per share under Canadian GAAP	<u>(0.009)</u>	<u>(0.062)</u>
Adjustments for differing accounting treatments Under IFRS:	<u>-</u>	<u>-</u>
Net loss for the period under IFRS	<u>(3,292,473)</u>	<u>(16,806,514)</u>

Notes to the reconciliations

1. On transition to IFRS, the Company has adopted a policy whereby proceeds from flow-through issuance are allocated between the offering of shares and the sale of tax benefits based on the difference between the fair value of the shares issued and the amount the investor pays for the shares. A flow through share liability is recognized for this difference and is extinguished by recognizing an income tax recovery when the entity renounces the tax deductions.

Previously, the Company's Canadian GAAP policy was to adopt the recommendations of Emerging Issues Committee ("EIC") 146 with respect to the accounting for flow-through shares. This resulted in the Company reducing the net proceeds of the flow-through share issuance by the future tax liability of the Company resulting from the renunciation of the exploration and development expenditures in favour of the flow-through share subscribers.

All previously unrecognized amounts of flow-through share liabilities that had been fully renounced were reclassified from share capital to accumulated deficit amounting to \$1,532,455 as at January 1, 2010.

2. In accordance with IFRS 1, the Company has elected to deem all foreign currency translation differences that existed at the date of transition to IFRS in respect of all foreign entities to be zero at the date of transition. The effect was to increase foreign currency translation (other components of equity) and to decrease retained earnings by \$548,707 at January 1, 2010.
3. Under Canadian GAAP when there is objective evidence that a financial asset at fair value (e.g. available for sale investments) with changes recognized in other comprehensive income, is impaired, an impairment loss is recognized. The objective evidence exists if there has been a "significant or prolonged" decline in its fair value below cost. For the Company's investment in Vaaldiam Resources Ltd, the decline in fair value below cost was significant and prolonged in 2007 and 2008. Under Canadian GAAP an impairment loss of \$3,236,051 should have been recognized through profit and loss in 2007 and 2008, subsequent to 2008 no further impairment loss should be recognized. Accordingly, the accumulated other comprehensive loss and deficit at January 1, 2010 under Canadian GAAP has been adjusted by transferring \$3,236,051 of accumulated comprehensive loss to accumulated deficit.