

**GREAT WESTERN MINERALS GROUP LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

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

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

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

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

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

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

"Audrey McMillan, CA"  
**Chief Financial Officer**

Saskatoon, Saskatchewan



## AUDITORS' REPORT

### Partners

R. Joe Parker  
Thomas Stack\*  
Barry Frank\*  
Blair Davidson\*  
Bernie Broughton\*  
David Ballantyne  
Craig Hermann\*  
Carol Mailloux\*  
Evan Shoforost\*  
Orlo Drewitz\*  
Greg Keller\*  
Irene Boychuk\*  
Ryan Ball\*  
Timothy R. Timmerman  
Wes Unger\*  
Lane Wallace

### Senior Counsel

Lee Hergott  
Maurice Duval  
Lyle Zdunich\*

To the Shareholders of  
**Great Western Minerals Group Ltd.**

We have audited the consolidated balance sheet of Great Western Minerals Group Ltd. as at December 31, 2008 and 2007 and the consolidated statements of loss and deficit, cumulative other comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2008 and 2007 and the consolidated results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

SASKATOON, SASKATCHEWAN

April 6, 2009 (except for note 19 b, which  
is at April 20, 2009)

**Chartered Accountants**

**GREAT WESTERN MINERALS GROUP LTD.**

**CONSOLIDATED BALANCE SHEET**

**DECEMBER 31, 2008**

(Canadian dollars)

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
<b>Current Assets</b>		
Cash	\$ 646,941	\$ 7,005,995
Accounts receivable	1,485,254	611,275
Due from related parties	-	33,906
Inventory	2,797,047	35,392
Deposits and prepaid expenses	563,783	478,401
	<u>5,493,025</u>	<u>8,164,969</u>
Investment in Vaaldiam Resources Ltd. (Note 4)	85,500	2,090,000
Mineral properties (Note 5)	18,241,796	13,903,398
Capital assets (Note 6)	5,270,869	1,971,529
Intangible assets	1,615,644	
Goodwill	2,660,154	-
Future income taxes	-	616,399
Other long term asset	15,000	15,000
	<u>\$ 33,381,988</u>	<u>\$ 26,761,295</u>

**LIABILITIES**

<b>Current Liabilities</b>		
Accounts payable	\$ 2,513,722	\$ 407,133
Demand loan (Note 7)	1,313,669	-
Corporate taxes payable	86,974	-
Current portion of long-term debt (Note 8)	6,135,011	71,886
	<u>10,049,376</u>	<u>479,019</u>
Long term debt (Note 8)	837,659	673,417
Future income taxes (Note 12)	1,044,910	-
	<u>11,931,945</u>	<u>1,152,436</u>

**SHAREHOLDERS' EQUITY**

Share capital (Note 9)	39,243,321	36,905,871
Contributed surplus (Note 9)	3,172,590	2,757,041
Cumulative other comprehensive loss	(3,225,451)	(1,462,180)
Deficit	(17,740,417)	(12,591,873)
	<u>21,450,043</u>	<u>25,608,859</u>
	<u>\$ 33,381,988</u>	<u>\$ 26,761,295</u>

Commitments & Contingency (Notes 14 & 18)  
Nature of Operations and Going Concern (Note 1)

**Approved by the Board**

"Ian McNaughton"

"Jim Engdahl"

**GREAT WESTERN MINERALS GROUP LTD.**

**CONSOLIDATED STATEMENT OF LOSS AND DEFICIT**

**YEAR ENDED DECEMBER 31, 2008**

(Canadian dollars)

	<u>2008</u>	<u>2007</u>
Sales	\$6,915,250	\$980,902
Cost of sales	5,081,003	293,353
<b>Gross Margin</b>	<b><u>1,834,247</u></b>	<b><u>687,549</u></b>
<b>Expenses</b>		
General and administration	2,025,832	1,196,280
Wages and benefits	2,562,363	1,805,639
Stock based incentives	214,984	684,572
Property research	93,547	61,162
Professional fees	194,087	195,644
Investor relations	367,819	438,669
Other direct overhead	104,616	168,052
	<b><u>5,563,248</u></b>	<b><u>4,550,018</u></b>
<b>Loss before interest, taxes and depreciation</b>	<b>(3,729,001)</b>	<b>(3,862,469)</b>
Depreciation and amortization	649,568	186,571
Interest expense	507,516	31,705
Interest income	(68,214)	(118,020)
Other income	(50,004)	(117,818)
Exchange (gain) loss	(904,938)	7,086
<b>Loss before undernoted items</b>	<b>(3,862,929)</b>	<b>(3,851,993)</b>
Gain (loss) on disposal of assets	2,158	(9,628)
Share in loss of Great Western Diamonds Corp.	-	(12,216)
Impairment of goodwill	(500,000)	-
Loss on abandonment of mineral properties	(1,567,421)	-
Gain on dilution of interest in Great Western Diamonds Corp.	-	1,145,654
<b>Loss before income taxes</b>	<b>(5,928,192)</b>	<b>(2,728,183)</b>
Income tax recovery	(60,467)	-
Future income tax recovery (Note 12)	(719,181)	(1,116,577)
<b>Net loss</b>	<b>(5,148,544)</b>	<b>(1,611,606)</b>
Deficit, beginning of year	(12,591,873)	(10,980,267)
<b>Deficit, end of year</b>	<b><u>\$ (17,740,417)</u></b>	<b><u>\$ (12,591,873)</u></b>
<b>Basic loss per share</b>	<b><u>\$ (0.032)</u></b>	<b><u>\$ (0.02)</u></b>
<b>Diluted loss per share</b>	<b><u>\$ (0.032)</u></b>	<b><u>\$ (0.02)</u></b>
<b>Weighted average number of shares outstanding</b>	<b><u>162,165,385</u></b>	<b><u>82,946,675</u></b>

**GREAT WESTERN MINERALS GROUP LTD.**

**CONSOLIDATED STATEMENT OF CUMULATIVE OTHER COMPREHENSIVE LOSS**

**YEAR ENDED DECEMBER 31, 2008**

(Canadian dollars)

	<u>2008</u>	<u>2007</u>
<b>Cumulative other comprehensive (loss) income, beginning of year</b>	\$ (1,462,180)	\$ 33,329
<b>Other comprehensive (loss) income</b>		
Unrealized loss on available for sale investments	(2,004,500)	(1,231,551)
Translation adjustment	<u>241,229</u>	<u>(263,958)</u>
<b>Cumulative other comprehensive loss, end of year</b>	<b><u>\$ (3,225,451)</u></b>	<b><u>\$ (1,462,180)</u></b>

**GREAT WESTERN MINERALS GROUP LTD.**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**YEAR ENDED DECEMBER 31, 2008**

(Canadian dollars)

	<u>2008</u>	<u>2007</u>
<b>Cash flows from (used in) operating activities</b>		
Net loss	\$ (5,148,544)	\$ (1,611,606)
Items not affecting cash		
Depreciation and amortization	649,568	186,571
Gain on dilution of interest in Great Western Diamonds Corp.	-	(1,145,654)
Future income tax recovery	(719,181)	(1,116,577)
Stock based incentives	214,984	684,572
Share in loss of Great Western Diamonds Corp.	-	12,216
Loss on disposal of capital assets	-	9,814
Net changes in non-cash working capital items related to operations	<u>(229,085)</u>	<u>(513,521)</u>
	<b><u>(5,232,258)</u></b>	<b><u>(3,494,185)</u></b>
<b>Cash flows from (used in) investing activities</b>		
Additions to mineral properties	(4,273,399)	(7,948,038)
Purchase of capital assets	(3,727,072)	(913,119)
Purchase of intangible assets	(1,700,678)	-
Proceeds on disposal of capital assets	-	66,940
Increase in long-term asset	-	(15,000)
Change in Goodwill/Intangibles	<u>(1,498,092)</u>	<u>-</u>
	<b><u>(11,199,241)</u></b>	<b><u>(8,809,217)</u></b>
<b>Cash flows from (used in) financing activities</b>		
Issuance of share capital	4,617,351	16,337,588
Share issue costs	(890,402)	-
Proceeds of issuance of long-term debt	6,727,368	750,000
Repayment of long-term debt	<u>(381,872)</u>	<u>(266,869)</u>
	<b><u>10,072,445</u></b>	<b><u>16,820,719</u></b>
<b>Net (decrease) increase in cash during the year (Note 10)</b>	<b>(6,359,054)</b>	<b>4,517,317</b>
Cash beginning of year	<u>7,005,995</u>	<u>2,488,678</u>
<b>Cash, end of year</b>	<b><u>\$ 646,941</u></b>	<b><u>\$ 7,005,995</u></b>

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

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

Great Western Minerals Group Ltd. (the "Company") was incorporated under the Business Corporations Act of British Columbia on September 30, 1983. Effective December 12, 2007, the Company's jurisdiction was continued out of British Columbia into the federal jurisdiction. The Company is in the development stage with respect to its interests in mineral properties. Its wholly-owned subsidiary, Great Western Technologies Inc. ("GWTI"), is a manufacturer and producer of specialty alloys, powders and related value added products used in the aerospace, automobile, industrial, computer and high-tech industries. The Company's wholly-owned subsidiary, GWUS Inc., holds the interest in the Deep Sands property acquired in the third quarter of 2007. On June 27, 2008, the Company purchased all of the issued and outstanding shares of Less Common Metals Ltd. ("LCM") of Birkenhead, United Kingdom ("UK") through a newly created wholly-owned subsidiary, LCMG Ltd. ("LCMG") of Birkenhead, UK. LCM is a leading global manufacturer and supplier of rare earth based alloys, high purity metals, and ultra-high purity indium.

These financial statements have been prepared on the basis of generally accepted accounting principles as applicable to a going concern, which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. For the year ended December 31, 2008, the Company reported an after-tax loss of \$5,148,544, an accumulated deficit of \$17,740,417 and working capital deficiency of \$4,556,351. As at year end, the Company has not generated positive cash flow from operations.

The Company has incurred significant operating 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. To ensure the Company's ability to continue as a going concern, management has initiated a strict cost control program, reduced non management salaries to a four day work week, reduced management salaries by 25% and are investigating the disposal of non-core capital assets. 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.

**2. Significant accounting policies**

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

**Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, GWTI, GWUS Inc., LCM, LCMG and inactive subsidiaries; Texoro Resources Corporation and Great Western Minerals USA Inc. Interests in joint ventures are accounted for by the proportionate consolidation method. The Company accounts for investments in which it has significant influence over under the equity method, and investments designated as available for sale are recorded at fair value.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

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

**Cash**

Cash consists of cash on hand, balances with banks and investments in money market funds.

**Inventory**

Inventory is valued at the lower of cost and market as determined on a first-in, first-out basis.

**Mineral properties**

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

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

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

**Capital assets**

Capital assets are recorded at cost. Equipment is amortized using the straight-line method. Annual amortization rates are as follows:

Building	4%
Computer equipment	30%
Furniture	20%
Leasehold improvements	20%
Motor vehicles	25%
Plant equipment	20%

**Intangible assets subject to amortization**

The customer list of LCM is being amortized over its expected useful life, which is ten years.

**Goodwill**

Goodwill represents the excess of the purchase price of the Company's interest in the businesses acquired over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisitions. The Company determines, at least once annually, whether the fair value of the business to which goodwill has been attributed is less than the carrying value of the business's net assets including goodwill, thus indicating impairment. The Company completed the annual test to determine, whether for the year ended December 31, 2008, there was impairment in the carrying amount of goodwill. As a result of this review, an impairment loss of \$500,000 was recognized as a charge to income in 2008. This adjustment reflected the decline in general market conditions during the year.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

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

**Future income taxes**

The Company uses the asset and liability method of recording income taxes. This method recognizes the future income tax inflows and outflows that will result whenever the carrying amount of an asset or liability is recovered or settled.

The Company finances a portion of its exploration activities through the use of flow through shares. The Company records the tax cost of expenditures renounced to subscribers on the date the deductions are renounced to the subscribers. Share capital is reduced and future income tax liabilities are increased by the estimated tax benefits renounced by the Company to the subscribers, except to the extent that the Company has unrecorded loss carry forwards and tax pools in excess of book value available for deduction.

**Asset retirement obligations**

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

**Revenue recognition**

Revenue is recognized on product sales when the products are shipped. In addition, rental income and interest income is recognized as it becomes earned.

**Foreign currency translation**

For integrated foreign operations, foreign currency transactions are translated to Canadian dollars using the temporal method. Under this method, all monetary assets and liabilities expressed in foreign currencies are translated at quarter end exchange rates. Income statement items are translated at the average rate prevailing during the quarter. All other assets and liabilities are translated at the rates prevailing at the dates the assets were acquired or liabilities incurred. The resulting foreign currency translation gains and losses are included in the determination of loss for the quarter. For self sustaining foreign operations, foreign currency transactions are translated to Canadian dollars using the current rate method. Under this method, all assets and liabilities expressed in foreign currency are translated at the quarter end exchange rate. The resulting foreign currency translation amount is shown in a separate part of other comprehensive income.

**Stock-based compensation plan**

The Company has a share option plan that is described in Note 9. Options granted under the share option plan are accounted for using the fair-value method. Under this method, the fair-value of stock options granted is measured at estimated fair-value at the grant date and recognized over the vesting period. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus on options granted is transferred to share capital.

**Use of estimates**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period.

By nature, asset valuations are subjective and do not necessarily result in precise determinations. Should underlying assumptions change, the estimated net recoverable value could change by a material amount.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

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

**Adoption of new accounting standards**

Effective January 1, 2008, the Company adopted the following accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These new standards have been adopted on a prospective basis with no restatement to prior period financial statements.

**Going concern**

Effective January 1, 2008, the Company adopted the amended CICA handbook section on general standards of financial statement presentation, which includes requirements to assess and disclose an entity's ability to continue as a going concern. The amendment requires management to assess an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date.

**Capital disclosure**

Effective January 1, 2008, the Company adopted CICA handbook sections relating to capital disclosure. This additional disclosure includes information regarding an entity's objectives, policies and processes for managing capital.

**Financial instruments - disclosures and presentation**

Effective January 1, 2008, the Company adopted CICA handbook sections relating to financial instrument presentation and disclosure. These sections are intended to enhance the users' ability to evaluate the significance of financial instruments to an entity, related exposures and the management of these risks.

**Future accounting pronouncements**

**Goodwill and other intangible assets**

Effective January 1, 2009, the Company will adopt a CICA handbook section relating to goodwill and intangible assets, which replaces existing standards relating to goodwill and intangible assets and research and development costs. The standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The standard harmonizes Canadian GAAP with International Financial Reporting Standards ("IFRS") and applies to annual and interim financial statements for fiscal years beginning on or after October 1, 2008. The Company is currently reviewing the standard to determine the impact of the financial statements.

**International financial reporting standards**

In February 2008, the Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011. The Company's first financial statements presented in accordance with IFRS will therefore be the year ended December 31, 2011. Though IFRS uses a conceptual framework similar to Canadian GAAP, there are some significant differences on recognition, measurement and disclosure requirements. In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating some of the impact of adopting IFRS at the changeover date. The International Accounting Standard Board ("IASB") will, however, also continue to issue new accounting standards during the conversion period. As a result, the final impact of IFRS on the Company's financial statements will only be measureable once all IFRS applicable at the conversion date are known.

As a result of this convergence, the Company has developed a plan to convert its financial statements to IFRS. Management has not yet completed its quantification of the effects of adopting IFRS. The financial performance and financial position as presented in the Company's Canadian GAAP financial statements may be significantly different when presented in accordance with IFRS.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**3. Investment in LCM and LCMG Ltd.**

On June 27, 2008, the Company, through a newly incorporated wholly owned United Kingdom subsidiary (LCMG Limited) acquired all of the issued and outstanding shares of common stock of Less Common Metals Ltd. ("LCM"), a corporation domiciled in Birkenhead, United Kingdom (the "LCM Shares"). The purchase price of \$9,660,433 was funded as follows:

- (i) \$3,882,214 in cash of which £1,500,000 (\$3,041,400) was funded with a loan secured against the assets of LCM. LCM then lent the money to LCMG who used it to pay the vendors a portion of the purchase price. See notes 7 and 8 for further details on the loan.
- (ii) The Company issued a £2,800,000 (\$5,677,280) convertible debenture (the "Convertible Debenture") which includes a \$608,280 completion fee and 750,000 common share purchase warrants (the "Warrants") valued at \$100,939 to the Vendors.

The Convertible Debenture has a two year term and is convertible only at maturity or default at the market price of the Company's common shares at the end of the two year term. The Company may redeem the £2,500,000 (\$5,069,000) Convertible Debenture at any time prior to conversion upon payment in full, and payment of a completion fee of £300,000 (\$608,280). The Convertible Debenture bears interest at a rate of 10% per annum, payable quarterly in arrears. Security for the Convertible Debenture is 4,275,000 common shares of Vaaldiam Resources Ltd. held by the Company and the shares of Great Western Technologies Inc., a wholly owned subsidiary of the Company. The Warrants have a term of two years and are convertible into common shares of the Company at a price of \$0.30 per common share.

On June 27, 2008, the Company received direct ownership of 62.5% of the LCM Shares and LCMG received direct ownership of 37.5% of the LCM shares. Immediately after the closing, the Company approved the transfer of its 62.5% ownership of the LCM shares to LCMG in return for further share equity in LCMG. The result, after the transfer, is that LCMG obtained direct ownership of 100% of the LCM shares. As part of the acquisition of the LCM Shares, the Company entered into a series of commitments as described in note 14. The acquisition was accounted for using the purchase method and the following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. As at June 27, 2008

Current Assets	\$7,378,354
Property, plant and equipment	3,194,155
Intangible assets	1,700,678
Goodwill	<u>3,160,154</u>
Total assets acquired	15,433,341
Current liabilities	4,610,846
Future income tax liability	<u>1,162,062</u>
<b>Net Assets Acquired</b>	<b><u>\$9,660,433</u></b>

**4. Investment in Vaaldiam Resources Ltd.**

During the quarter ended March 31, 2008, the Company agreed to tender its 9,500,001 shares of Great Western Diamonds Corp. to Vaaldiam Resources Ltd. ("Vaaldiam") upon the successful completion of Vaaldiam's takeover of Great Western Diamonds Corp. The Company received 4,275,000 common shares of Vaaldiam in return. The Company does not have significant influence over Vaaldiam and as such accounted for the investment using the cost method, with it being classified as an available-for-sale investment. Vaaldiam is publicly traded on the TSX Venture Exchange ("TSX V"). The market value of the Company's common share interest in Vaaldiam at December 31, 2008 is \$85,500 (December 31, 2007 - \$2,090,000).

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**5. Mineral properties**

**Mineral properties are made up of the following:**

	<b>C.B. Project</b>	<b>Chuck- walla</b>	<b>Copper Hill</b>	<b>Crescent</b>	<b>Douglas River</b>	<b>Hoidas Lake</b>	<b>Knee Lake</b>	<b>Deep Sands</b>	<b>Rareco</b>	<b>Benjamin River</b>	<b>Total</b>
<b>Balance, 2007</b>	\$7,112	\$642,729	\$697,787	\$ 92,241	\$6,676	\$7,253,884	\$10,600	\$5,192,369	\$ -	\$ -	\$ 13,903,398
<b>Expenditures during the year</b>											
Acquisition	894	24,030	88,136	7,516	9,708			35,424	62,750	29,160	\$ 257,618
Assays/Metallurgy						281,136		137,249			\$ 418,385
Camp Operations						505,637		90,065			\$ 595,702
Drilling						1,981,766		409,001			\$ 2,390,767
Environmental						68,839					\$ 68,839
Feasibility						453					\$ 453
Field Supplies								64,556			\$ 64,556
Freight						206,353		1,462			\$ 207,815
GeoChem			1,063			76,919		82,337			\$ 160,319
Geophysics						3,524					\$ 3,524
Labor		166	356		391	332,814		292,348	10,615	3,831	\$ 640,521
Management Fees		1,800	300	300	600	94,856		150,476	1,200	10,695	\$ 260,227
Permit Reporting						298		5,065			\$ 5,363
Pre-Feasibility						415,159					\$ 415,159
Surveys/Mapping						4,945		89,099			\$ 94,044
Transportation						190,112					\$ 190,112
Travel	24	2,651	316			9,578		94,777	25,069		\$ 132,415
Loss on Abandonment	(8,030)	(671,376)	(787,958)	(100,057)							\$ (1,567,421)
<b>Balance Dec 31, 2008</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$17,375</b>	<b>\$11,426,273</b>	<b>\$10,600</b>	<b>\$6,644,228</b>	<b>\$99,634</b>	<b>\$43,686</b>	<b>\$ 18,241,796</b>

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**5. Mineral properties (continued)**

	<b>C.B. Project</b>	<b>Chuckwalla</b>	<b>Copper Hill</b>	<b>Crescent</b>	<b>Douglas River</b>	<b>Hoidas Lake</b>	<b>Knee Lake</b>	<b>Deep Sands</b>	<b>Total</b>
<b>Balance, 2006</b>	\$ -	\$ 538,133	\$ 341,637	\$ 76,430	\$ 6,426	\$ 4,892,733	\$ -	\$ -	\$ 5,855,359
<b>Expenditures during the year</b>									
Acquisition	7,112	100,906	209,531	6,549		700	10,600	5,001,469	\$ 5,336,867
Assays/Metallurgy			1,602			125,316		53,176	\$ 180,094
Camp Operations						58,350		10,911	\$ 69,261
Drilling						970,571			\$ 970,571
Environmental			20,107			257,458			\$ 277,565
Feasibility						117,527			\$ 117,527
Field Supplies			766					11,035	\$ 11,801
Freight			2,123			54,664		285	\$ 57,072
GeoChem			117,420			220		22,384	\$ 140,024
Geophysics						1,356			\$ 1,356
Labor		1,290	2,801	2,878		19,508		36,770	\$ 63,247
Management Fees		2,400	1,800	1,000	250	26,300		18,547	\$ 50,297
Permit Reporting						278		897	\$ 1,175
Pre-Feasibility						587,593			\$ 587,593
Surveys/Mapping				3,976		3,531		13,377	\$ 20,884
Transportation				1,408		136,236			\$ 137,644
Travel						1,543		23,518	\$ 25,061
<b>Balance Dec 31, 2007</b>	<b>\$ 7,112</b>	<b>\$ 642,729</b>	<b>\$ 697,787</b>	<b>\$ 92,241</b>	<b>\$ 6,676</b>	<b>\$ 7,253,884</b>	<b>\$ 10,600</b>	<b>\$ 5,192,369</b>	<b>\$13,903,398</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.

**Deep Sands Project**

The Company holds a 25% interest in rare earth elements (“REE”) contained in a heavy mineral sands project in Utah acquired for total consideration of US \$4.3 million. The Company also committed to undertake a work program at the property. The term of the agreement shall be for a period of twelve months from the later of the date of closing or the date that the Company is legally permitted to commence drilling and evaluation activities at the property with requisite permits and bonding in place, which term may be extended by mutual agreement of the parties. The term of this agreement will automatically be extended an additional three months in the event that the Company elects to negotiate a participation agreement with the Vendor.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**5. Mineral properties (continued)**

**Deep Sands Project (continued)**

The Company will perform the following work program during the term of the contract:

- a) Drill 66 holes to a minimum depth of fifty feet. In addition, at ten of these drill holes, drilling will continue to bedrock;
- b) Carry out sampling and analysis at appropriate intervals and complete assays on all minerals and elements of interest to both parties as mutually agreed;
- c) Perform resource modeling and Resource/Reserve Estimation (NI43-101 Compliant); and
- d) Reimburse the vendor for expenses related to maintaining the property claims and leases current and in good standing during the term of the agreement.

The vendor will hold the remaining 75% interest in the rare earth minerals contained in the Property, and have exclusive rights to deal with 100% of the non-rare earth-bearing minerals. Following the completion of the drilling and evaluation program, the Company will negotiate with the Vendor either the acquisition of the remaining 75% of Rare Earth Elements or a participation in a joint venture. In the event that the Company and the vendor cannot agree to a mutually agreeable participation agreement regarding the commercial exploitation of Rare Earth Minerals, each company has a right of first refusal to match any bona fide offer the other 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 party, 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.

**Copper Hill**

On September 1, 2005, the Company entered into an Option Agreement to acquire 12 claims at the Copper Hill property located in Clark County, Nevada. Under the terms of the Option Agreement, the Company paid US\$35,000 and issued 100,000 common shares upon execution of this agreement. The Company also paid to the optionor US\$50,000 on the first anniversary of the date of the agreement, US\$100,000 on the second anniversary and was scheduled to pay US\$250,000 by the third anniversary. The Company issued to the optionor 150,000 common shares on January 1, 2007, and 200,000 common shares on January 1, 2008, and was scheduled to issue 250,000 common shares by January 1, 2009 and 500,000 common shares upon the completion of a positive feasibility study. On December 31, 2008, management decided to abandon the Copper Hill Option Agreement which resulted in the total write off of acquisition costs and exploration costs incurred to December 31, 2008 on the property. Since management decided to let this option agreement lapse, the September 1, 2008 scheduled payment of US\$250,000 was not made.

**C.B Project**

During the year, the Company held a 100% interest in 32 claims in California. On December 31, 2008, management decided to abandon its mineral claims on the C.B. Project which resulted in the total write off of acquisition costs and exploration costs incurred to December 31, 2008 on the property.

**Chuckwalla**

In 2005, the Company signed a formal Option Agreement to replace the original Memorandum of Understanding signed in 2002. Under the terms of the Option Agreement, the Company could earn its 100% interest by making a cash payment to the optionor of US\$25,000 and then making annual payments totaling the greater of 3% Net Production Royalty or US\$100,000. The Company has issued the optionor a total of 250,000 common shares of the Company. Upon completion of a feasibility study and a positive production decision, the Company was scheduled to issue 500,000 common shares to the optionor. On December 31, 2008, management decided to abandon the Chuckwalla Option Agreement which resulted in the total write off of acquisition costs and exploration costs incurred to December 31, 2008 on the property. Since management decided to let this option agreement lapse, the annual payment of US\$100,000 was not made.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**5. Mineral properties (continued)**

**Crescent Project**

During the year, the Company held a 100% interest in 56 mineral claims located Curry County, Oregon. On December 31, 2008, management decided to abandon its mineral claims on the Crescent Project which resulted in the total write off of acquisition costs and exploration costs incurred to December 31, 2008 on the property.

**Douglas River**

The Company owns 100% interests in two mineral dispositions in the Douglas River area of Saskatchewan. The property covers areas of significant yttrium and heavy rare earth mineralization.

**Knee Lake**

The Company acquired the Knee Lake project, a northern Saskatchewan property, in the third quarter of 2007 as a potential source of high purity calcium carbonate. High purity calcium carbonate (calcite) is required for many uranium and rare earth element metallurgical processes. The property acquired both mining and quarrying leases over the calcium carbonate body.

**Benjamin River**

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

**Rareco Project**

On December 22<sup>nd</sup>, 2008, the Company entered into an Option Agreement with Rare Earth Extraction Co. Ltd. ("Rareco") of Stellenbosch, South Africa, to refurbish, re-commission, and operate the currently abandoned Steenkampskraal underground mine in the Western Cape, South Africa. In addition, GWMG can acquire exclusive access to 100% of the rare earth elements mined there.

Under the terms of the agreement, GWMG has agreed to pay Rareco an amount of ZAR 1 Million (approximately C\$125,000) for this option, payable in two tranches. The first payment of ZAR 500,000 was paid on signing the agreement.

The second payment of ZAR 500,000 will be made upon delivery, by Rareco, to GWMG, of an updated feasibility study and the receipt of confirmation that the application for conversion of its current Old Order Mining Right to a new mining license has been accepted by the South African Department of Mineral and Energy Affairs (the "confirmation of acceptance"). The updated feasibility study is expected to be completed by March 31, 2009 and receipt of the confirmation of acceptance is expected by June, 30 2009.

Subject to approval by GWMG of the updated feasibility study, the confirmation of acceptance, and other due diligence information to be provided by Rareco, GWMG and Rareco will negotiate a Supply Agreement under which 100% of the rare earth ore mined and processed will be made available, by Rareco, to GWMG, for a ten-year period, after which a new Supply Agreement can be negotiated.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**6. Capital assets**

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building	\$ 993,640	\$ 58,447	\$ 935,193	\$ 826,449
Computer equipment	160,963	92,950	68,013	53,457
Furniture	55,893	18,640	37,253	17,819
Motor vehicles	38,602	31,415	7,187	-
Plant equipment	7,060,037	3,148,552	3,911,485	1,028,814
Leasehold improvements	485,931	174,193	311,738	44,990
	<b><u>\$ 8,795,066</u></b>	<b><u>\$ 3,524,197</u></b>	<b><u>\$ 5,270,869</u></b>	<b><u>\$ 1,971,529</u></b>

**7. Demand loan**

LCM has \$1,313,669 outstanding on 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 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.

The second facility is a revolving inventory facility whereby funds are advanced against eligible inventory calculated monthly. The value of the loan is approximately 30% of the total inventory of LCM and it fluctuates monthly. There are no 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.

**8. Long-term debt**

	2008	2007
Canadian Western Bank loan, matures July 1 2012, secured by a first mortgage in related land and building, bears interest at 6.36% per annum, paid in monthly installments of \$3,298 principal and interest	\$ 433,416	\$ 445,303
Convertible debenture, due May 2012, secured by a second collateral mortgage in related land and building, bears interest at 8.00% per annum, paid semi-annually and \$60,000 principal paid annually.	300,000	300,000
Convertible debenture, due June 27, 2010, secured by Vaaldiam Shares and GWTI shares held in trust at Computershare, bears interest at 10% paid quarterly with principal of £2,500,000 (\$4,474,000) plus a completion fee of £300,000 (\$536,880) due at the end of the term of the debenture	5,010,880	-
Venture Structured Finance cash flow loan of £500,000 (\$894,800); due June 27, 2010; bears interest at the UK Base rate plus 3.5%; paid in monthly installments of £21,000 (\$37,582) principal plus interest	672,868	-

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

8. Long-term debt (continued)	<u>2008</u>	<u>2007</u>
Venture Structured Finance plant & machinery loan of £375,000 (\$671,100); 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 £11,000 (\$19,685) principal plus interest for the first year and £22,000 (\$39,371) principal plus interest for the second year	555,506	-
	<u>6,972,670</u>	<u>745,303</u>
Less current portion	6,135,011	71,886
	<u>\$ 837,659</u>	<u>\$ 673,417</u>

On May 31, 2007, GWMG purchased the office building it occupies from its landlord. The purchase price was \$800,000, of which \$300,000 was paid by a convertible debenture bearing interest at 8% per annum, payable semi-annually, secured by a second mortgage granted to the vendor, with both principal and interest being convertible into common shares of the corporation by the vendor at the Market Price as defined and adjusted in TSXV Policy 4.1, and by the Company at the ten day weighted average market price prior to conversion, provided that the price is not lower than the Market Price as defined and adjusted in TSXV Policy 4.1. As the number of common shares required to settle the obligation is based primarily on the amount of the contractual obligation, the total amount of the convertible debenture is recognized as a financial liability. As at December 31, 2008, the Company was in arrears under the payment schedule stipulated in the debenture. The debenture holder consented to an extension to permit the Company to bring the payments current. The holder agreed to monthly payments of \$5,000 commencing January 15<sup>th</sup> until June 15<sup>th</sup> at which time all arrears are to be paid in full. The arrears are estimated to be \$120,000 of principal and \$2,000 of interest on June 15, 2009.

On June 27, 2008, GWMG purchased the common shares of LCM as described in Note 3. A portion of the purchase price (£2,500,000 - \$4,474,000) was funded by GWMG issuing a convertible debenture to the vendors, bearing interest at 10% per annum, payable quarterly, secured by Vaaldiam and GWTI shares held in trust at Computershare. As at December 31, 2008, GWMG entered into a subsequent agreement with the vendors deferring interest of \$260,810 (for the period June 27 to December 31, 2008) to being payable on March 31, 2009 and the deferred interest is included in other current liabilities on the balance sheet. GWMG also granted the vendors a £300,000 (\$536,880) completion fee payable at the end of the term. As of April 14, 2009, the Company has not paid the interest that was due on March 31, 2009 and is in discussions with the debenture holders in order to negotiate further extensions and repayment options. The principal, interest and the completion fee are convertible into common shares of the corporation by the vendors at the Market Price as defined as the ten day weighted average trading price prior to conversion as per the TSXV. As the number of common shares required to settle the obligation is based primarily on the amount of the contractual obligation, the total amount of the convertible debenture is recognized as a financial liability.

The remaining portion of the purchase price of LCM was funded by Venture Structured Finance. The first long term loan consists of £500,000 (\$894,800) borrowed against the cash flows of LCM. This loan is due June 27, 2010 and consists of principal payments of £21,000 (\$37,582) per month for the first 23 months and a 24th month principal payment of £17,000 (\$30,423). The loan bears interest at the UK Base Rate plus 3.5%. Interest is payable monthly. The second long term loan consists of £375,000 (\$671,100) borrowed against the plant and machinery of LCM. This loan is due June 27, 2010 and consists of principal payments of £11,000 (\$19,686) per month for the first 12 months, £22,000 (\$39,371) per month for the next 11 months and a 24th month principal payment of £1,000 (\$1,790). The loan bears interest at the UK Base Rate plus 2.75%. Interest is payable monthly.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**8. Long-term debt** (continued)

Principal payments due in each of the next five years, assuming current repayment schedules and similar terms of refinancing, are as follows:

2009	\$ 944,131
2010	5,501,414
2011	74,433
2012	75,177
2013	15,300

**9. Share capital**

Authorized unlimited common shares, without par value Issued

	Common Shares	Share Capital
<b>Balance, December 31, 2006</b>	<b>67,944,670</b>	<b>\$ 21,766,579</b>
Issued for mineral properties	250,000	100,000
Private placements	43,171,175	17,282,720
Exercise of warrants	332,167	132,867
Exercise of broker warrants	212,281	63,684
Exercise of options	200,000	56,000
Renunciation of Canadian exploration expenses	-	(770,917)
Cash issue costs	-	(1,197,683)
Non-cash issue costs	-	(527,379)
<b>Balance, December 31, 2007</b>	<b>112,110,293</b>	<b>36,905,871</b>
Issued for mineral properties	200,000	65,000
Private placements	30,887,864	3,858,903
Exercise of warrants	2,613,200	718,630
Renunciation of Canadian exploration expenses	-	(1,161,000)
Cash issue costs	-	(991,341)
Non-cash issue costs	-	(152,742)
<b>Balance, December 31, 2008</b>	<b><u>145,811,357</u></b>	<b><u>\$ 39,243,321</u></b>

During February 2007, the Company issued 150,000 common shares at a deemed price of \$0.40 per share as part of the Copper Hill Option Agreement.

During March 2007, the Company issued 475,000 non flow-through units at \$0.43 per share for gross proceeds of \$204,250. Each unit consists of one share and one full share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one share at an exercise price of \$0.43 for a two-year period from the closing date.

During March 2007, the Company issued 100,000 commons shares at a deemed price of \$0.40 per share as part of the Chuckwalla Option Agreement.

During Q2 2007, the Company issued 6,458,675 non flow-through units at \$0.40 per share for gross proceeds of \$2,583,470. Each unit consists of one share and one full share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one share at an exercise price of \$0.55 for a two-year period from the closing date.

During Q3 2007, the Company issued 25,487,500 non flow-through units at \$0.40 per share for gross proceeds of \$10,195,000. Each unit consists of one share and one full share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one share at an exercise price of \$0.55 for a two-year period from the closing date.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**9. Share capital (continued)**

During December 2007, the Company issued 10,750,000 flow-through units at \$0.40 per share for gross proceeds of \$4,300,000. No warrants were attached.

During January 2008, the Company issued 200,000 common shares at a deemed price of \$0.32 per share as part of the Copper Hill Option Agreement.

During August 2008, existing holders of common share purchase warrants, exercised 2,613,200 warrants at a price of \$0.275 per warrant for aggregate proceeds of \$718,630, as part of an early warrant exercise program offered to warrant holders. Exercising warrant holders received one common share in the capital of the company and one half of one common share purchase warrant exercisable for \$0.35, for each warrant exercised pursuant to the program.

During September 2008, the Company issued 8,790,000 flow-through units at \$0.25 per share for gross proceeds of \$2,197,500. No warrants were attached. As part of this private placement the Company issued 172,471 shares at \$0.25 per share as compensation to Agent's involved in the transaction.

During October 2008, the Company issued 7,831,445 flow-through units at \$0.09 per share for gross proceeds of \$704,830. No warrants were attached. The Company also issued 920,656 non flow-through units at \$0.09 per share for gross proceeds of \$82,859. Each unit consists of one share and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one share at an exercise price of \$0.20 for a two-year period from the closing date.

During November 2008, the Company issued 1,339,961 non flow-through shares at \$0.09 per share in exchange for \$120,596 of debt being settled.

During December 2008, the Company issued 11,666,665 flow-through units at \$0.06 per share for gross proceeds of \$700,000. Each unit consists of one share and one half of one share purchase warrant. Each whole share purchase warrant entitles the holder to acquire one share at an exercise price of \$0.20 for a two-year period from the closing date. As part of this private placement the Company issued 166,666 shares as compensation to Agent's involved in the transaction. The Company also issued 666,666 broker options at an exercise price of \$0.06 for a two year period from the closing date.

**Share option plan**

The Company has established a share option plan under which options may be granted to directors, officers 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.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**9. Share capital (continued)**

**Share option plan (continued)**

Options outstanding as of December 31, 2008 are as follows:

<u>Expiry Date</u>	<u>Price</u>	<u>Outstanding 2007</u>	<u>Granted</u>	<u>Exercised</u>	<u>Relinquished / Lapsed</u>	<u>Outstanding 2008</u>
April 1, 2009	0.23	1,350,000	-	-	250,000	1,100,000
May 5, 2010	0.42	750,000	-	-	-	750,000
June 29, 2010	0.44	375,000	-	-	-	375,000
December 16, 2010	0.42	600,000	-	-	350,000	250,000
April 18, 2011	0.45	1,000,000	-	-	50,000	950,000
September 20, 2011	0.44	785,000	-	-	100,000	685,000
August 3, 2012	0.40	1,885,000	-	-	175,000	1,710,000
October 5, 2012	0.40	1,650,000	-	-	-	1,650,000
December 4, 2012	0.40	200,000	-	-	-	200,000
April 2, 2013	0.30	-	400,000	-	50,000	350,000
October 31, 2013	0.20	-	3,675,000	-	-	3,675,000
		<b><u>8,595,000</u></b>	<b><u>4,075,000</u></b>		<b><u>975,000</u></b>	<b><u>11,695,000</u></b>

For options outstanding at December 31, 2008 and December 31, 2007, weighted average exercise prices are as follows:

	<u>2008 Options</u>	<u>2008 Average Price</u>	<u>2007 Options</u>	<u>2007 Average Price</u>
Beginning of year	8,595,000	\$ 0.39	8,595,000	\$ 0.39
Options granted	4,075,000	0.21	-	-
Options exercised	-	-	-	-
Options lapsed	(975,000)	0.39	-	-
	<b><u>11,695,000</u></b>	<b><u>\$ 0.36</u></b>	<b><u>8,595,000</u></b>	<b><u>\$ 0.39</u></b>

<u>Options Price Per Share</u>	<u>Number</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life</u>
0.20	3,675,000	\$ 0.20	4.83
0.23	1,100,000	0.23	0.25
0.30	350,000	0.30	4.25
0.40	3,560,000	0.40	3.69
0.42	1,000,000	0.42	1.50
0.44	1,060,000	0.44	2.29
0.45	950,000	0.45	2.30
	<b><u>11,695,000</u></b>	<b><u>\$ 0.36</u></b>	<b><u>3.13</u></b>

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

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**9. Share capital (continued)**

**Share option plan (continued)**

During the second quarter of 2008, the Company granted 400,000 stock options to employees and consultants. The strike price for the options issued was \$0.30 exercisable for a period of 5 years. The value of the options calculated using the Black-Scholes option pricing model described above was \$32,680 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 3.75%, an expected life of the options of three years, an annualized volatility rate of 75% and a dividend rate of nil.

During the third quarter of 2008, the Company granted 3,675,000 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 \$182,304 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 1.73%, an expected life of the options of three years, an annualized volatility rate of 141% and a dividend rate of nil.

**Warrants**

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

	<u>Warrants</u>	<u>Average Price</u>
<b>Balance, December 31, 2006</b>	<b>15,411,880</b>	<b>\$ 0.58</b>
Granted	32,421,175	0.57
Exercised	(332,167)	0.40
Expired	(8,208,337)	0.51
<b>Balance, December 31, 2007</b>	<b>39,292,551</b>	<b>0.57</b>
Granted	8,350,258	0.25
Exercised	(2,613,200)	0.28
Expired	(6,435,378)	0.66
<b>Balance, December 31, 2008</b>	<b>38,594,231</b>	<b>\$ 0.52</b>

**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>	<u>Fair Value</u>
<b>Balance, December 31, 2006</b>	<b>652,575</b>	<b>\$ 0.42</b>	<b>\$ 101,255</b>
Granted	4,051,375	0.49	485,371
Exercised	(212,281)	0.30	(77,986)
Expired	(2,134)	0.30	-
<b>Balance, December 31, 2007</b>	<b>4,489,535</b>	<b>0.48</b>	<b>508,640</b>
Granted	1,631,965	0.21	99,624
Exercised	-	-	-
Expired	(438,160)	0.69	-
<b>Balance, December 31, 2008</b>	<b>5,683,340</b>	<b>\$ 0.42</b>	<b>\$ 608,264</b>

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**9. Share capital (continued)**

**Contributed surplus**

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 contributed surplus. Upon exercise, the corresponding amount of contributed surplus related to the security is removed from contributed surplus and added to share capital.

During the second quarter of 2008, the Company granted 750,000 warrants. The strike price for the warrants issued was \$0.30 exercisable for a period of 2 years. The value of the warrants calculated using the Black-Scholes option pricing model described above was \$100,939 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 3.69%, an expected life of the warrants of two years, an annualized volatility rate of 88% and a dividend rate of nil.

During the third quarter of 2008, the Company granted 615,300 broker warrants. The strike price for the warrants issued was \$0.25 exercisable for a period of 2 years. The value of the warrants calculated using the Black-Scholes option pricing model described above was \$64,956 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 2.73%, an expected life of the warrants of two years, an annualized volatility rate of 95% and a dividend rate of nil.

On December 16, 2008, the Company granted 83,333 broker warrants. The strike price for the warrants issued was \$0.20 exercisable for a period of 2 years. The value of the warrants calculated using the Black-Scholes option pricing model described above was \$2,332 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 2.13%, an expected life of the warrants of two years, an annualized volatility rate of 150% and a dividend rate of nil. The Company also granted 666,666 broker options. The strike price for the broker options issued was \$0.06 exercisable for a period of 2 years. The value of the warrants calculated using the Black-Scholes option pricing model described above was \$25,839 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 2.13%, an expected life of the warrants of two years, an annualized volatility rate of 150% and a dividend rate of nil.

On December 18, 2008, the Company granted 266,666 finder fee warrants. The strike price for the warrants issued was \$0.20 exercisable for a period of 2 years. The value of the warrants calculated using the Black-Scholes option pricing model described above was \$6,497 and was expensed with a corresponding increase to contributed surplus. Assumptions used in the pricing model were: risk free rate of 2.13%, an expected life of the warrants of two years, an annualized volatility rate of 149% and a dividend rate of nil.

A summary of the contributed surplus activity is as follows:

	<u>2008</u>	<u>2007</u>
<b>Balance, December 31, 2007</b>	<b>\$ 2,757,041</b>	<b>\$ 1,545,088</b>
Fair value of options granted	214,985	684,572
Fair value of broker warrants granted	99,625	485,371
Fair value of warrants granted	100,939	-
Adjustment to contributed surplus related to options exercised	-	141,816
Adjustment to contributed surplus related to broker warrants exercised	-	(99,806)
<b>Balance, December 31, 2008</b>	<b><u>\$ 3,172,590</u></b>	<b><u>\$ 2,757,041</u></b>

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

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

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

	<u>2008</u>	<u>2007</u>
Common shares issued for Chuckwalla acquisition	\$ -	\$ 40,000
Common shares issued for Copper Hill acquisition	65,000	60,000
Warrants issued in LCM purchase	100,939	
Broker Warrants issued	99,624	
Shares for debt issued	53,118	

**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 totaling approximately US\$12,199, expiring in December 2009. Future minimum lease payments under the above non-cancellable leases are approximately US\$146,390 in 2009. 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 2011 for 21 years. Both leases expire on June 20, 2022. Future minimum lease payments under the above non-cancellable leases are approximately £149,712 in 2009-2012. The lease rate will be reviewed and adjusted to market on June 30, 2012.

**12. Income taxes**

Future income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future assets and liabilities are as follows:

	<u>2008</u>	<u>2007</u>
<b>Future income tax (liability) asset</b>		
Non-capital loss carry forwards	\$ 2,836,549	\$1,894,080
Deferred share issue costs	430,540	346,939
Intangible assets	(452,350)	-
Mineral properties	(2,691,808)	(1,120,790)
Valuation allowance	(1,167,841)	(503,830)
	<b><u>\$(1,044,910)</u></b>	<b><u>\$ 616,399</u></b>

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**12. Income taxes (continued)**

The valuation allowance offsets the net future tax assets for which there is no assurance of recovery and is evaluated considering positive and negative evidence about whether the future income tax assets will be recognized. At the time of the evaluation, the allowance is either increased or decreased. A reduction could result in the complete elimination of the allowance if positive evidence indicated that the value of the future income tax assets is no longer impaired and the allowance is no longer required. A reconciliation of income taxes at Canadian statutory rates with the reported income tax is as follows:

	<u>2008</u>	<u>2007</u>
Loss for the year before taxes	\$ (5,928,192)	\$ (2,728,183)
Expected income tax expense (recovery)	(1,897,021)	(832,096)
Other non-deductible amounts	160,000	7,201
Non-taxable gain on dilution	-	(345,698)
Non-deductible stock based compensation	191,454	208,794
Effect of change in tax rate on temporary difference	(89,094)	(44,591)
Capital asset differences	59,186	-
Valuation allowance	<u>795,827</u>	<u>(110,187)</u>
Actual income tax expense (recovery)	<u>\$ (779,648)</u>	<u>\$ (1,116,577)</u>

At December 31, 2008, the Company had non-capital losses for tax purposes of \$7,652,817 which may be carried forward to reduce income for tax purposes in future periods and for which no future tax benefit has been recognized in these financial statements as a result of the valuation allowance. The non-capital loss will begin to expire in 2009.

**13. Related party transactions**

During the twelve months, salaries, bonuses, management and consulting fees of \$961,305 (2007 - \$633,009) were paid to directors, officers and companies controlled by common directors. \$154,839 (2007 - \$53,950) was included in mineral properties, \$33,000 (2007 - \$100,766) was included in management fees, and \$592,759 (2007 - \$364,774) was included in salaries. 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.

**14. Commitments**

The Company entered into the following commitments with regard to the purchase of the shares of LCM on June 27, 2008:

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.

The Company signed a side letter arrangement whereby it agreed to not cause LCM or LCMG to pay or transfer cash or cash equivalents from LCM to the Company prior to June 25, 2009. The intent of this side letter was to give assurances to LCM's auditors that were providing an opinion on LCM's ability to repay debts as they became due within the next 12 months from the date of sale. This auditor opinion is standard practice in the UK.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**14. Commitments** (continued)

The Company entered into a side letter arrangement whereby it agreed that during the period in which the Convertible Debenture to the vendors (see Note 8) remains outstanding, it will use all reasonable efforts to raise general or working capital funds to repay the convertible debenture before the end of the two year term. The provision of the letter shall not apply where a fundraising is completed for a specific project. The Company agreed that within 30 days of receipt of proceeds from a general fundraising it would repay the convertible debenture as follows:

If less than \$5 million net proceeds; zero repayment.

If greater than \$5 million but less than \$12 million net proceeds; repay for each \$1million in net proceeds in excess of the \$5 million, such proportion of such additional \$1 million as would be required to redeem 1/7 of the outstanding principal amount of the convertible debentures.

If greater than \$12 million net proceeds; repay all amounts owing on the convertible debenture.

Venture Structured Finance required the President of LCM, in his capacity as Director of LCM, to sign a personal indemnity guarantee indemnifying Venture Structured Finance for any losses that they may suffer as a result of any fraudulent, deceitful or dishonest act on the President's part. The Company's UK consul has indicated that the indemnity is consistent with current UK common law practices.

As a result of the personal indemnity guarantee required by Venture Structure Finance, the Company granted the President of LCM a Warranty and Indemnity holding the President harmless from and against any and all expenses, costs, damages, losses, liabilities and claims against him or incurred by him as a result of or in connection with the personal indemnity signed with Venture Structured Finance, provided that the Company would have no liability where any such expense, loss, liability or claim arises as a result of any act of fraud, dishonesty, deceit or deception by the President of LCM.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**15. Segmented information**

The Company has two reportable segments: exploration and manufacturing. 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. The manufacturing services segment involves the manufacturing and supply of rare earth based alloys, high purity metals, and ultra-high purity indium.

**a) Business segments**

**For the year ending December 31, 2008**

	<u>Exploration</u>	<u>Manufacturing Services</u>	<u>Total</u>
Sales	\$ -	\$ 6,915,250	\$ 6,915,250
Cost of sales	-	5,081,003	5,081,003
<b>Gross margin</b>	<b>\$ -</b>	<b>\$ 1,834,247</b>	<b>\$ 1,834,247</b>
General and administration	\$ 715,111	\$ 1,310,721	\$ 2,025,832
Wages and benefits	784,514	1,777,849	2,562,363
Stock based compensation	214,984	-	214,984
Property research	93,547	-	93,547
Professional fees	149,154	44,933	194,087
Investor relations	329,710	38,109	367,819
Other direct overhead	-	104,616	104,616
	<b>2,287,020</b>	<b>3,276,228</b>	<b>5,563,248</b>
<b>Earnings before interest, taxes, depreciation and other income</b>	<b>(2,287,020)</b>	<b>\$ (1,441,981)</b>	<b>\$ (3,729,001)</b>
Depreciation	85,136	564,432	649,568
Interest expense	316,009	191,507	507,516
Interest income	(67,400)	(814)	(68,214)
Other income	(50,004)	-	(50,004)
Exchange gain	(636,075)	(268,863)	(904,938)
<b>Loss before undernoted items</b>	<b>(1,934,686)</b>	<b>(1,928,243)</b>	<b>(3,862,929)</b>
Gain on sale of assets	-	2,158	2,158
Impairment of goodwill	-	(500,000)	(500,000)
Loss on abandonment - mineral properties	(1,567,421)	-	(1,567,421)
<b>Loss before income taxes</b>	<b>\$ (3,502,107)</b>	<b>\$ (2,426,085)</b>	<b>\$ (5,928,192)</b>
Income tax recovery	-	60,467	60,467
Future income tax recovery	719,181	-	719,181
<b>Net Loss</b>	<b>\$ (2,782,926)</b>	<b>\$ (2,365,618)</b>	<b>\$ (5,148,544)</b>

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**15. Segmented information (continued)**

**b) Geographic segments**

**Revenue detail**

Canada		
Interest	\$	67,400
Rental		50,004
Manufacturing		990
United States		
Interest		814
Rental		-
Manufacturing		544,342
United Kingdom		
Interest		-
Rental		-
Manufacturing		6,369,918
		<u>7,033,468</u>

**Assets**

Canada		
Cash and other equivalents		474,582
Capital assets		1,048,725
Mineral properties		11,597,568
Investment in Vaaldiam Resource Ltd		85,500
Goodwill and intangibles		385,690
		<u>13,592,065</u>
United States		
Cash and other equivalents		138,705
Capital assets		1,472,798
Mineral properties		6,644,228
		<u>8,255,731</u>
United Kingdom		
Cash and other equivalents		4,894,739
Capital assets		2,749,346
Goodwill		2,274,463
Intangible assets		1,615,644
		<u>11,534,192</u>
	\$	<u>33,381,988</u>

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**16. Financial instruments**

**Financial risk management**

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

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

**Financial instrument risk exposure**

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

*Credit Risk*

The Company's credit risk is primarily attributable to cash. The Company reduces its credit risk by maintaining its bank accounts at large reputable financial institutions. The maximum exposure to credit risk is equal to the fair value or carry value of the financial assets.

*Liquidity Risk*

The Company ensures that there are sufficient cash resources in order to meet short-term business requirements. The Company's cash is invested in business accounts which are available on demand.

*Market Risk*

- a) Interest Rate Risk – The Company is exposed to some interest rate risk. The Company's bank account earns interest income at variable rates. The fair value of its marketable securities portfolio is relatively unaffected by changes in short-term rates. The Company's future interest income is exposed to short-term rates and fluctuations.
- b) Foreign Currency Risk – The Company has foreign currency risk due to fluctuations in foreign currency rates as it has significant transactions in foreign currencies, primarily UK Pound Sterling and US dollars. The Company closely monitors foreign currency balances to minimize the risk of foreign currency losses.
- c) Price Risk – The Company is exposed to price risk with respect to equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

**GREAT WESTERN MINERALS GROUP LTD.**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

(Canadian dollars)

**17. Capital disclosure**

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

The Company considers the items included in shareholders' equity as capital. The Company manages the capital structure and makes adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary. The annual budgets are approved by the Board of Directors.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to invest its cash in highly liquid, short-term interest-bearing investments with an initial term to maturity of twelve months or less.

**18. Contingent liability**

The Company is committed to spending, prior to December 31, 2009, qualifying Canadian exploration expenditures ("CEE") of \$4,732,290. In addition, 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.

**19. Subsequent events**

- a) On March 19, 2009 the Company closed a non-brokered private placement financing for Non-Flow-Through Units. The Company issued a total of 1,595,443 shares at a price of \$0.09 and 1,595,443 warrants, exercisable at \$0.15 until March 19, 2011. Aggregate gross proceeds from this financing were \$143,589. There were no commissions paid, resulting in net proceeds of \$143,589.
- b) On April 20, 2009, the Company announced that Molycorp Minerals, LLC ("Molycorp") and the Company entered into a non-binding letter of intent (the "Letter of Intent") wherein Molycorp would acquire a controlling interest in the Company pursuant to a share issuance, merger, amalgamation, or other form of business combination. Under the terms of the Letter of Intent, by July 31, 2009, Molycorp and the Company will negotiate a definitive agreement whereby Molycorp proposes to issue new, non-voting shares of Molycorp in exchange for new and/or existing Great Western Minerals Group Ltd. common shares. The Letter of Intent is subject to an "Exclusivity Period" until August 31, 2009, during which, both parties agree to negotiate the final terms and conditions for the Definitive Agreement. In addition, the Company and Molycorp intend to negotiate an unsecured convertible \$1,000,000 loan from Molycorp at an interest rate of 10% per annum to fund the ongoing cost of operations and debt service obligations.

**20. Comparative figures**

Certain of the comparative figures have been reclassified to conform with the current year's presentation.