

Brilliant Mining Corp

Consolidated Financial Statements

For the three months ended December 31, 2006 and 2005

Brilliant Mining Corp.

Notice of Non-review of Interim Financial Statements

The attached interim financial statements for the three months ended December 31, 2006 and 2005 have not been reviewed by the company's auditors.

Brilliant Mining Corp
Consolidated Statements of Loss and Deficit
(unaudited)

Three months ended	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Revenue		
Gross nickel concentrate sales	\$ 12,448,917	\$ -
Interest	113,400	1,830
Other	32,241	-
	<hr/>	<hr/>
	12,594,558	1,830
Expenses		
Amortization	2,490,461	-
Concentrator fees	407,595	-
General and administrative	287,298	41,958
Interest on capital lease obligations	31,317	-
Interest on convertible debenture	184,840	-
Interest	61,016	-
Mining	1,728,169	-
Royalties	316,473	-
Smelter fees	4,357,121	-
Stock based compensation (note 10)	1,523,786	72,750
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	11,388,076	114,708
	<hr/>	<hr/>
	1,206,482	(112,878)
Other income (expenses)		
Gain on disposal of property plant and equipment	1,452	-
Loss on nickel contracts	(4,468,923)	-
Realized foreign exchange gain	124,716	-
Unrealized foreign exchange gain	183,024	-
	<hr/>	<hr/>
	(4,159,731)	-
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Net loss before income tax	(2,953,249)	(112,878)
Current income tax	(420,161)	-
Future income tax	431,728	-
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Net loss	(2,941,682)	(112,878)
Deficit, beginning of period	(7,130,397)	(1,165,218)
Equity portion of interest on convertible debenture	(25,202)	-
	<hr/>	<hr/>
Deficit, end of period	\$ (10,097,281)	\$ (1,278,096)
Basic and diluted net loss per common share (note 9)	<hr/>	<hr/>
	\$ (0.05)	\$ (0.01)

Brilliant Mining Corp
Consolidated Statements of Comprehensive Loss
(unaudited)

Three months ended	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Net loss for the period	\$ (2,941,682)	\$ (112,878)
Other comprehensive income		
Change due to reclassification of cumulative foreign currency translation balance	11,477	-
Unrealized gain on translating financial statements of self- sustaining foreign operations	590,267	-
Total comprehensive loss	\$ (2,339,938)	\$ -

Brilliant Mining Corp
Consolidated Statements of Cash Flows
(unaudited)

Three months ended	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Cash flows from operating activities		
Net loss	\$ (2,941,681)	\$ (112,879)
Adjustments for:		
Accretion of convertible debenture	84,018	-
Amortization	2,490,461	-
Gain on disposal of property, plant and equipment	(1,452)	-
Stock based compensation	1,523,786	72,750
Future income taxes	(431,728)	-
	723,404	(40,129)
Change in non-cash working capital items:		
Accounts receivable	1,492,544	(5,850)
Forward contracts	(264,354)	-
Accounts payable and accrued liabilities	(1,219,874)	(97,141)
Income taxes payable	439,287	-
Other current assets	19,427	-
	1,190,434	(143,120)
Cash flows from investing activities		
Mineral interest exploration expenditures	(2,711)	(35,662)
Capitalized Lanfranchi mine expenditures	(295,373)	-
Proceeds on disposals of property, plant, and equipment	19,947	-
Purchases of property, plant and equipment	(705,410)	-
	(983,547)	(35,662)
Cash flows from financing activities		
Repayment of bank loan	(826,830)	-
Payment of capital lease obligation	(106,261)	-
Net proceeds from issuance of share capital	54,262	9,300
	(878,829)	9,300
	(671,942)	(169,482)
Effect on cash due to foreign currency translation	420,078	-
Decrease in cash	(251,864)	(169,482)
Cash, beginning of period	13,003,187	307,285
Cash, end of period	\$ 12,751,323	\$ 137,803
Supplemental cash flow information		
Interest paid	\$ 194,439	\$ -

Brilliant Mining Corp
Notes to the Consolidated Financial Statements
(unaudited)

December 31, 2006 and 2005

1. Nature of operations

Brilliant Mining Corp ("Brilliant") was incorporated under the Alberta Business Corporations Act on October 1, 1998 and has its shares listed for trading on the TSX Venture Exchange. In the year ended September 30, 2006, the Company acquired all of the issued and outstanding shares of a private Australian company, Donegal Resources Pty Ltd., along with its wholly owned subsidiaries Donegal Mining Pty Ltd. and Donegal Lanfranchi Pty Ltd. (collectively, "Donegal".) Donegal Lanfranchi Pty Ltd has a 25% interest in the unincorporated Lanfranchi Joint Venture consisting of a producing nickel mine property on an approximately 50 km² contiguous mineral tenement package ("Tramways tenements") in Western Australia. Brilliant and Donegal are referred to collectively in these consolidated financial statements as the "Company".

Prior to the acquisition of Donegal, the principal business of Brilliant was the evaluation, acquisition and development of mineral exploration properties. By acquiring Donegal the principal business of the Company has changed to the extraction and sale of ore containing nickel.

2. Basis of presentation

The accompanying unaudited interim consolidated financial statements have been prepared by the Company following the same accounting policies and methods as those disclosed in the audited consolidated financial statements for the year ended September 30, 2006 unless otherwise stated. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") in Canada have been omitted. These interim consolidated financial statements should be read in conjunction with the September 30, 2006 audited consolidated financial statements and the notes thereto. In the opinion of management, all adjustments of a normal and recurring nature that are necessary for a fair presentation of the balance sheet, results of operations, and cash flows of those interim periods have been included.

Beginning with the three month period ended December 31, 2006, the Company has been required to adopt the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections: 1530 "Comprehensive Income"; 1651 "Foreign Currency Translation"; 3051 "Investments"; 3251 "Equity"; 3855 "Financial Instruments – Recognition and Measurement"; and 3861 "Financial Instruments – Disclosure and Presentation" which were issued on January 1, 2005.

Under these new standards, a new financial statement, the Consolidated Statement of Comprehensive Loss has been introduced which provides for certain gains and losses, including amounts arising from changes in fair value temporarily recorded outside of the income statement. In addition, all financial instruments are to be included in the Company's Consolidated Balance Sheet and measured, in most cases, at fair values.

Certain figures in the comparative financial statements have been reclassified to conform with the presentation adopted in the current period.

Brilliant Mining Corp
Notes to the Consolidated Financial Statements
(unaudited)

December 31, 2006 and 2005

3. Business combination

On May 25, 2006, the Company closed the acquisition of all of the issued and outstanding shares of Donegal Resources Pty Ltd., a private Australian corporation. Total consideration for the acquisition was \$19,359,603. Details of the consideration given and assets acquired are detailed below:

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Assets acquired:	
Cash	\$ 1,528,078
Accounts receivable	2,005,661
Forward contracts	341,204
Other current assets	211,468
Property, plant & equipment	2,474,851
Lanfranchi mine	<u>21,156,612</u>
	27,717,874
Less: liabilities assumed:	
Accounts payable and accrued liabilities	(2,216,147)
Asset retirement obligation	(172,982)
Bank loan	(3,462,086)
Current tax liability	(52,902)
Obligations under capital leases	(1,625,154)
Note payable	<u>(829,000)</u>
	<hr/> \$ 19,359,603 <hr/>
Purchase consideration:	
Cash	
To vendors	\$ 5,000,000
Break fee	150,000
Due diligence and acquisition costs	<u>1,072,103</u>
	6,222,103
Securities given as consideration	
10,500,000 shares at \$0.65 per share	6,825,000
5,250,000 warrants at a fair value of \$0.25 per warrant	<u>1,312,500</u>
	<u>8,137,500</u>
Convertible debenture	5,000,000
	<hr/> \$ 19,359,603 <hr/>

The share component has been determined based on the nine day average closing market value of Brilliant's common shares on the TSX Venture Exchange, centered on the date of announcement of the acquisition agreement, February 6, 2006 (exclusive of trading blackout period), being \$0.65 per share.

The 5,250,000 warrants issued as partial consideration for Donegal entitle the holder to acquire one common share of Brilliant at a price of \$1.00 on or before May 25, 2007, or \$1.25 on or before May 25, 2009, subsequent to which the warrants will expire if not exercised. The warrants have an estimated fair value of \$1,312,500, or \$0.25 per warrant.

The \$5,000,000 unsecured convertible debenture issued to the vendors of Donegal on May 25, 2006, bears interest at 10% per annum, payable quarterly, and matures in three years. The principal amount outstanding is convertible at the option of the holder, in whole or in part, and from time to time, into common shares of the Company at a conversion price of \$1.00 on or before May 25, 2008 and \$1.10 on or before May 25, 2009. The Company has the option to prepay the Debenture, in whole or in part, upon thirty days'

Brilliant Mining Corp
Notes to the Consolidated Financial Statements
(unaudited)

December 31, 2006 and 2005

3. Business combination, continued

notice during which time the holder can elect to exercise its right of conversion. The convertible debenture has been presented on the consolidated balance sheet in its separate accreted liability (\$4,200,913) and equity (\$1,000,000) components based on the ratio of estimated fair value of each component. Interest incurred on the equity component of the convertible debenture is accounted for as a reduction of retained earnings or deficit. Interest on the liability portion and the accretion of the liability component to its face value at maturity is classified as interest expense.

Included in due diligence and acquisition costs, stamp duty of approximately \$885,250 is payable to the Government of Western Australia. This amount represents the Company's estimate of the stamp duty payable, and the exact amount has not yet been determined.

The accounting effective date of the acquisition is May 31, 2006. The material components of Donegal's operating revenues and expenses are brought to account on the last day of each month due to joint venture reporting and ore tolling and sales contracts. No adjustments have been made in the Company's accounts to reflect the activities between the legal acquisition date of May 25, 2006, and the accounting acquisition date.

The functional currency of Donegal is the Australian dollar. The assignment of the purchase consideration to the assets and liabilities acquired is based on the consolidated financial statements of Donegal Resources Pty Ltd. as at May 31, 2006, translated into the Company's reporting currency of Canadian dollars using the current rate method. Translation was based on the Bank of Canada's quoted marginal exchange rate at May 31, 2006 of CA\$0.8290: AU\$1.

4. Cash

Cash consists of cash on hand and cash on demand deposit with accredited financial institutions in Canada and Australia. The Company has provided \$25,000 of cash as security to the Company's financial institution for corporate credit card liabilities. In addition, cash includes a restricted amount of AU\$162,500 (\$134,713) held by one of the Company's financial institutions as a guarantee against a performance bond, held in the name of the original vendor of the Lanfranchi Nickel Mine, in order to guarantee future reclamation activities at the Lanfranchi site.

A portion of the Company's cash is in the custody of the Lanfranchi Joint Venture, operated by an unrelated third party, but under joint control.

5. Forward contracts and nickel contracts

The Company has acquired a series of forward contracts to exchange United States dollars ("US Dollars") for Australian dollars at fixed rates until June 2007. The total amount of US Dollars payable under the contracts as at December 31, 2006 is US\$4,070,650 (\$4,743,528), and the total amount of Australian dollars receivable under the contracts is AU\$5,386,536 (\$4,948,611). The forward contracts have been recognized at acquisition date at their mark-to-market value as of that date and are subsequently adjusted to market value at reporting dates. Gains and losses on the market adjustments to these contracts are reflected in net income in the period in which the change in value occurs. The asset and liability components of the forward contracts are shown net as they are settled simultaneously with the same counterparty.

The Company has also acquired a series of monthly nickel ore sales contracts, each at a fixed tonnage of nickel concentrate and a fixed US Dollar sales price. These derivatives are not recognized in the consolidated balance sheet. The aggregate quantity of nickel to be sold under the remaining contracts (up to August, 2007) is 534 tonnes at prices ranging from US\$12,100 to US\$12,975 per tonne.

All of the forward contracts and commodity contracts were entered into by Donegal as a condition of acquiring bank debt financing for its purchase of the 25% interest in the Lanfranchi Nickel Mine (note 6).

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Notes to the Consolidated Financial Statements
(unaudited)

December 31, 2006 and 2005

5. Mine property – Lanfranchi Joint Venture

The Company has acquired a 25% interest in the Lanfranchi Joint Venture (“Lanfranchi JV”) that includes the producing Lanfranchi Nickel Mine and a sublease over the Lanfranchi and associated Tramways tenements, consisting of 37 mineral leases over 50 km² located in the Kambalda Nickel District in the state of Western Australia, Australia. Revenue from nickel ore sales resulting from the mining activities of the Lanfranchi JV are recognized by the Company directly.

The primary asset of the Lanfranchi JV is the Lanfranchi Nickel Mine. The Company has assigned a value at the acquisition date of \$21,156,612 (note 3) to its 25% interest in the Lanfranchi Mine. The mine property, including acquisition costs and subsequent additions, is amortized on a units-of-production basis based on proven reserves. The following is a schedule of the balance of the Lanfranchi Mine as recognized on the consolidated balance sheet (reflecting foreign currency exchange rates at September 30, 2006 and December 31, 2006):

Acquisition (May 31, 2006)	\$	21,181,096
Capitalized pre-production costs		42,139
Capitalized mine development costs		<u>504,518</u>
		21,727,753
Period amortization		<u>(2,945,388)</u>
Balance, September 30, 2006		18,782,365
Effect of change in foreign currency exchange rates		636,890
Capitalized mine development costs		222,374
Capitalized exploration costs		589,490
Period amortization		<u>(2,389,545)</u>
Balance, December 31, 2006		<u>17,841,574</u>

Through acquiring Donegal, the Company has assumed an outstanding non-interest bearing note payable on the original purchase of the Lanfranchi Mine and Tramways tenements of AU\$1,000,000 (\$832,000), representing 25% of the total outstanding consideration to be paid, which is to be paid to the original vendor from which Donegal and its joint venture partner purchased the assets. The schedules of payments of this note payable are as follows:

	AU\$	CA\$
Payment due January, 2007	250,000	208,000
Payment due July, 2007	<u>375,000</u>	312,000
Current portion of note payable	625,000	520,000
Payment due December, 2007	<u>375,000</u>	312,000
Note Payable	<u>1,000,000</u>	832,000

In addition to the above, the original purchase agreement between Donegal and the original vendors of the Lanfranchi assets also requires a contingent payment to the original vendors of AU\$250,000 (\$208,000) within 60 days of delivering a cumulative 500,000 dry metric tonnes of nickel ore (the “Threshold Production”) from the Lanfranchi Nickel Mine. In the event that management determines that the Threshold

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December 31, 2006 and 2005

5. Mine property – Lanfranchi Joint Venture, continued

Production will be attained, the Company will account for the additional consideration as an increase to the acquisition cost of the Lanfranchi Nickel Mine and a resultant liability.

The Company also assumed a bank loan with the Commonwealth Bank of Australia in the amount of AU\$4,050,000 (\$3,351,780) (at the acquisition date) from Donegal's purchase of the Lanfranchi Mine property. The loan is secured by a fixed and floating charge over all the present and future undertakings, assets, and rights of Donegal Resources Pty Ltd. and Donegal Lanfranchi Pty Ltd., and a corporate guarantee equivalent to the outstanding balance of the loan. The loan bears interest at the Australian Bank Bill Standard Yield plus 2.5% payable monthly. A schedule of repayments on the principal outstanding at September 30, 2006 follows.

	AU\$	CA\$
January, 2007	900,000	826,830
April, 2007	1,650,000	1,515,855
	2,550,000	2,342,685

6. Segmented information

The Company operates in two geographic areas. The following table discloses information by geographic segment.

	Net loss	Total assets
Canada	\$ (1,201,516)	\$ 10,501,750
Australia	(4,728,595)	28,111,756
Total	\$ (5,930,111)	\$ 38,613,506

In the year ended September 30, 2005, the Company only operated in one geographical segment; Canada.

7. Mineral interests

	Ossok West	Ossok East	Michikamau	Scoop	Chesterfield	Total
	(a)	(a)	(b)	(c)	(d)	
	\$	\$	\$	\$	\$	\$
Balance, September 30, 2005	96,050	88,529	103,824	67,656	96,033	452,092
Additions during the period:						
Acquisition	-	-	15,155	-	1,207	16,362
Claims and land use	-	-	-	-	8,166	8,166
Refundable deposits	(16,225)	(12,775)	110,410	(8,475)	-	72,935
Airborne surveys	(2,384)	(1,816)	71,890	(1,540)	-	66,150
Geological consulting	11,485	5,185	156,329	4,603	6,858	184,460
Assaying	1,000	1,000	10,570	1,000	1,268	14,838
Fieldwork	27,255	445	545,547	445	(2,475)	571,217
Balance, September 30, 2006	117,181	80,568	1,013,725	63,689	111,057	1,386,220
Additions during the period:						
Geological consulting	1,000	-	10,431	-	-	11,431
Assaying	-	-	7,777	-	-	7,777
Fieldwork	-	-	(16,497)	-	-	(16,497)
Balance, December 31, 2006	118,181	80,568	1,015,436	63,689	111,057	1,388,931

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Notes to the Consolidated Financial Statements
(unaudited)

December 31, 2006 and 2005

8. Property, plant and equipment

	Period ended December 31, 2006		
	Cost	Accumulated amortization	Net
Canadian operations			
Computer equipment	\$ 23,270	\$ 4,072	\$ 19,198
Office furniture and equipment	8,016	782	7,234
	31,286	4,854	26,432
Australian Operations			
Buildings	54,341	208	54,133
Capital projects in progress	151,334	-	151,334
Office furniture and equipment	25,705	10,742	14,962
Plant and equipment	779,054	83,930	691,125
Plant and equipment under capital lease	1,843,013	254,451	1,588,562
	2,853,446	349,331	2,504,116
	\$ 2,884,732	\$ 354,185	\$ 2,530,548
	Year ended September 30, 2006		
	Cost	Accumulated amortization	Net
Canadian operations			
Computer equipment	\$ 23,270	\$ 2,516	\$ 20,754
Office furniture and equipment	8,016	401	7,615
	31,286	2,917	28,369
Australian Operations			
Buildings	49,213	132	49,081
Motor vehicles	19,457	1,946	17,511
Office furniture and equipment	22,665	6,992	15,673
Plant and equipment	675,570	40,407	635,163
Plant and equipment under capital lease	1,619,297	133,631	1,485,666
	2,386,202	183,108	2,203,094
	\$ 2,417,488	\$ 186,025	\$ 2,231,463

9. Share capital

a) Authorized

Unlimited number of Class A Common shares
Unlimited number of Class B Preferred shares

b) Common shares issued

	Number	Amount
Balance September 30, 2006	55,502,719	23,685,378
Issued upon exercise of options	45,000	6,150
Issued upon exercise of warrants	222,000	44,400
Adjustments to contributed surplus		240
Share issue costs refunded		3,712
Balance, December 31, 2006	55,769,719	\$ 23,739,880

Brilliant Mining Corp
Notes to the Consolidated Financial Statements
(unaudited)

December 31, 2006 and 2005

9. **Share capital, continued**

c) **Warrants**

	Number	Weighted average exercise price
Outstanding warrants, September 30, 2006	17,591,999	0.85
Warrants exercised	(222,000)	0.20
Outstanding warrants, December 31, 2006	17,369,999	0.85

Exercise prices	Number outstanding	Weighted average remaining contractual life in years
\$ 0.20	1,285,000	0.1
0.25	200,000	0.1
0.20	35,000	0.5
0.25	1,837,500	0.5
0.71	966,750	1.1
1.05	6,505,474	1.4
1.00	1,290,275	1.4
1.00	5,250,000	2.4
\$ 0.85	17,369,999	1.5

d) **Earnings and loss per share**

For the year ended September 30, 2006, the basic weighted average number of common shares outstanding was 55,593,806 (2005 – 13,583,945). The exercise of options and warrants would be anti-dilutive for the periods ended December 31, 2006 and 2005 as the Company was in a loss position.

10. **Stock-based compensation**

	Number	Weighted average exercise price
Outstanding options, September 30, 2006	2,445,000	\$ 0.28
Stock options granted	2,950,000	0.80
Stock options exercised	(45,000)	0.14
Outstanding options, December 31, 2006	5,350,000	\$ 0.56
Options exercisable, December 31, 2006	5,180,713	\$ 0.56

Brilliant Mining Corp
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10. **Stock-based compensation, continued**

Exercise prices	Number outstanding	Weighted average remaining contractual life in years
\$ 0.13	585,000	2.2
0.115	250,000	3.1
0.16	450,000	3.9
0.33	500,000	4.0
0.55	615,000	4.5
0.80	2,950,000	4.8
\$ 0.56	5,350,000	4.2

During the period ended December 31, 2006, the Company recorded stock-based compensation of \$1,523,786 (2005 – 72,750) relating to the 2,950,000 (2005 – 485,000) options granted and 71,428 (2005 – nil) previously granted options vesting. The expense has been recorded in the statement of loss and as an increase to contributed surplus. The compensation expense was determined based on the fair value of the options using the Black-Scholes model and certain assumptions as at the grant date.

11. **Contributed surplus**

Balance, September 30, 2006	\$ 2,330,970
Fair value of stock-based compensation	1,523,786
Adjustment for options exercised	(1,500)
Adjustment for agents' warrants exercised	(240)
	3,853,015
 Balance, December 31, 2006	 \$ 3,853,015

12. **Related party transactions**

During the period, the Company entered into the following related party transactions:

- a) Paid or accrued management fees to directors and officers of the Company or to companies controlled by directors and officers in the amount of \$63,792; (2005 - \$14,000) of which none was payable at December 31, 2006 (2005 - \$8,000).
- b) Paid or accrued geological consulting fees to directors and officers of the Company or to companies controlled by directors and officers in the amount of \$7,125; (2005 - \$13,000) of which none was payable at December 31, 2006 (2005 - \$2,000).
- c) Accrued interest on the convertible debenture in the amount of \$52,821 (2005 – nil) and the principal amount of the convertible debenture of \$5,000,000 (2005 – nil) (note 6) was payable to directors of the Company at December 31, 2006.

The above-noted transactions were incurred in the normal course of operations and have been recorded at the exchange amounts agreed to between the parties.