

Brilliant Mining Corp

Consolidated Financial Statements

For the three and nine months ended June 30, 2006 and 2005

Brilliant Mining Corp

Notice of Non-review of Interim Consolidated Financial Statements

The attached interim consolidated financial statements for the three and nine months ended June 30, 2006 and 2005 have not been reviewed by the company's auditors.

Brilliant Mining Corp
Consolidated Balance Sheets

	June 30, 2006	September 30, 2005
	(unaudited)	(audited)
ASSETS		
Current		
Cash (note 4)	\$ 8,508,241	\$ 307,285
Accounts receivable	2,323,855	47,419
Forward contracts receivable (note 5)	11,395,307	-
Other current assets	332,121	-
	22,559,524	354,704
Mine property (note 6)	20,570,456	-
Mineral interests (note 7)	564,220	452,092
Property, plant, & equipment (note 8)	2,285,778	-
	22,559,524	354,704
TOTAL ASSETS	\$ 45,979,978	\$ 806,796
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 3,320,576	\$ 113,938
Bank loan (note 6)	3,351,780	-
Current portion of note payable (note 6)	517,250	-
Forward contract payable (note 5)	11,430,736	-
	18,620,342	113,938
Asset retirement obligation (note 6)	173,341	-
Capital lease obligations	1,590,719	-
Convertible debenture (note 3)	3,772,727	-
Note payable (note 6)	310,350	-
	24,467,479	113,938
TOTAL LIABILITIES	24,467,479	113,938
Shareholders' equity		
Share capital (note 9)	19,867,383	1,689,581
Equity component of convertible debenture (note 3)	1,227,273	-
Contributed surplus (note 11)	2,361,880	168,495
Cumulative foreign currency translation balance	(7,981)	-
Deficit	(1,936,056)	(1,165,218)
	21,512,499	692,858
TOTAL SHAREHOLDERS' EQUITY	21,512,499	692,858
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 45,979,978	\$ 806,796

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

	Three months ended June 30, 2006	Three months ended June 30, 2005	Nine months ended June 30, 2006	Nine months ended June 30, 2005
Revenue				
Nickel ore sales	\$ 1,991,255	\$ -	\$ 1,991,255	\$ -
Interest	54,966	1,116	65,927	2,295
Other income	34,975	-	34,975	-
	2,081,196	1,116	2,092,157	2,295
Expenses				
Advertising and promotion	115,476	6,463	234,095	11,069
Amortization	598,896	-	598,896	-
Equipment maintenance	21,786	-	21,786	-
Management fees (note 12)	159,522	9,000	225,946	21,000
Mining expenses	465,553	-	465,553	-
Office and administration	93,742	2,059	104,395	4,105
Professional fees	1,263	3,104	12,189	22,646
Regulatory compliance fees	18,596	3,910	29,024	13,054
Royalties	27,092	-	27,092	-
Stock based compensation (note 10)	-	-	72,750	22,500
	1,501,926	24,536	1,791,726	94,374
	579,270	(23,240)	300,431	(92,079)
Other income (expenses)				
Interest expense	(54,980)	-	(54,980)	-
Loss on commodity contracts	(500,396)	-	(500,396)	-
Mineral interests written off	-	(555,812)	-	(555,812)
Realized foreign exchange loss	(51,951)	-	(51,951)	-
Unrealized foreign exchange loss	(451,501)	-	(451,501)	-
	(1,058,828)	(555,812)	(1,058,828)	(555,812)
Net loss	(479,558)	(579,232)	(758,397)	(647,891)
Deficit, beginning of period	(1,444,057)	(560,400)	(1,165,218)	(491,741)
Dividend component of interest on convertible debenture	(12,441)	-	(12,441)	-
Deficit, end of period	\$ (1,936,056)	\$ (1,139,632)	\$ (1,936,056)	\$ (1,139,632)
Basic and diluted loss per share	\$ (0.02)	\$ (0.06)	\$ (0.04)	\$ (0.09)
Weighted average number of shares	25,801,908	9,965,217	17,058,451	7,556,535

Brilliant Mining Corp.
Consolidated Statements of Cash Flows
(unaudited)

	Three months ended June 30, 2006	Three months ended June 30, 2005	Nine months ended June 30, 2006	Nine months ended June 30, 2005
Cash flows from operating activities				
Net loss	\$ (479,558)	\$ (579,232)	\$ (758,397)	\$ (647,891)
Adjustments for:				
Amortization	598,896	-	598,896	-
Mineral interests written off	-	555,812	-	555,812
Stock-based compensation	-	-	72,750	22,500
	119,338	(23,420)	(86,851)	(69,579)
Changes to non-cash working capital items:				
Accounts payable and accrued liabilities	642,052	16,530	580,729	41,147
Accounts receivable	(888,672)	(14,693)	(891,423)	(15,331)
Forward contracts receivable	757,464	-	757,464	-
Forward contracts payable	(291,596)	-	(291,596)	-
Other current assets	(73,236)	-	(73,236)	-
	265,350	(21,583)	(4,813)	(43,763)
Cash flows from investing activities				
Acquisition costs	(4,986,853)	-	(5,336,853)	-
Purchase of property, plant and and equipment	(18,259)	-	(18,259)	-
Proceeds on disposal of property, plant and equipment	155,885	-	155,885	-
Cash acquired on acquisition	1,525,495	-	1,525,495	-
Mine property additions	(64,849)	-	(64,849)	-
Mineral interest additions	(5,117)	(96,872)	(112,128)	(165,250)
	(3,393,698)	(96,872)	(3,850,709)	(165,250)
Cash flows from financing activities				
Repayment of bank loan	(104,459)	-	(104,459)	-
Costs of share issuance	(1,066,725)	-	(1,066,725)	-
Issuance of share capital	10,632,283	541,458	13,227,662	765,517
	9,461,099	541,458	12,056,478	765,517
Increase in cash	6,332,751	423,003	8,200,956	556,504
Cash, beginning of period	2,175,490	191,920	307,285	58,419
Cash, end of period	\$ 8,508,241	\$ 614,923	\$ 8,508,241	\$ 614,923

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

June 30, 2006

1. Nature of operations

The Company 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 period ended June 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 geographically contiguous mineral tenement package ("Tramways tenements") in Western Australia.

Prior to this acquisition, the principal business of the Company 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 (Ni).

The information presented for the three and nine month periods ended June 30, 2006 has been presented in accordance with Canadian generally accepted accounting principles for interim financial reporting. Except as disclosed in note 2, these interim consolidated financial statements follow the same accounting policies and methods of their application as, and should be read in conjunction with, the annual audited financial statements for the year ended September 30, 2005. All monetary amounts presented are expressed in Canadian Dollars unless indicated otherwise.

2. Significant accounting policies

Basis of consolidation

The consolidated balance sheet includes the assets and liabilities of the company's wholly owned subsidiary Donegal Resources Pty Ltd. and its wholly owned subsidiaries Donegal Mining Pty Ltd and Donegal Lanfranchi Pty Ltd. The consolidated statements of loss and deficit and cash flows include the accounts and cash flows of Donegal from the date of acquisition to the balance sheet date.

The accounts of Donegal Lanfranchi Pty Ltd include its 25% interest in the Lanfranchi Joint Venture, which is consolidated on a proportional basis whereby the accounts of Donegal Lanfranchi Pty Ltd include 25% of the Lanfranchi JV's assets, liabilities and expenses. Donegal Lanfranchi's share of ore produced by the Lanfranchi Joint Venture is sold by it directly.

Financial instruments

Derivatives

The Company has acquired a series of monthly forward foreign exchange contracts to exchange United States dollars for Australian dollars at fixed rates ("Forward Contracts") and forward nickel sales contracts denominated in United States dollars ("Commodity Contracts"). The Company recognizes gains and losses on the Commodity Contracts upon recognition of the associated revenues.

Forward Contracts are recognized as financial instruments on the consolidated balance sheet. They are initially recognized at fair value at the date of acquisition and subsequently adjusted for execution. Unrealized foreign exchange rate gains and losses are reflected in net income based on the change in value of the US Dollar denominated liability. Realized gains or losses on foreign exchange are recognized in net income upon execution of the forward contracts.

The Company currently does not have a formal hedging strategy, nor does it regularly evaluate the effectiveness of forward contracts as a hedge against currency exchange rate fluctuations, and therefore does not apply hedge accounting to these contracts.

Foreign currency translation

The Company's foreign controlled operations are accounted for as self-sustaining foreign subsidiaries, and are therefore translated using the current rate method. Under the current rate method, assets and liabilities are translated at period-end exchange rates, while revenues and expenses are translated using average

Brilliant Mining Corp.
Notes to the Consolidated Financial Statements
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June 30, 2006

2. Significant accounting policies, continued

rates during the period. Unrealized cumulative translation gains and losses on foreign exchange relating to the self-sustaining operations are included as a component of Shareholders' equity.

Property, plant, and equipment

The cost of each item of property, plant, and equipment is amortized on an item-by-item basis over its expected economic life, adjusted for salvage value where applicable. Estimates of economic lives are made on a regular basis for all property, plant, and equipment, with annual reassessments for material items.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Revenue from the sale of nickel-containing ore is recognized at its provisional price. A provisional invoice representing a portion of the total monthly production is payable in one month after the end of the month of production, and this revenue is recognized in the month of production. The remaining portion is only recognized upon presentation of the final invoice approximately three months after the production month. For the month of June 2006, the provisional invoice was for 85% of production.

Revenue from the rendering of a service is recognized upon the delivery of the service to customers.

Interest revenue is recognized when control of the right to receive the interest is obtained.

Brilliant Mining Corp.
Notes to the Consolidated Financial Statements
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June 30, 2006

3. Business Combination

On May 25, 2006, the Company closed the acquisition of all of outstanding shares of Donegal Resources Pty Ltd, a private Australian corporation. Total consideration for the acquisition was \$19,394,353. Details of the consideration given and assets acquired are detailed in the following table:

Assets acquired:	
Cash	\$ 1,528,075
Accounts receivable	1,387,357
Forward contract receivable (note 5)	12,173,329
Other current assets	259,323
Property, plant & equipment (note 8)	2,472,790
Lanfranchi Property (note 6)	<u>21,069,452</u>
	38,890,326
Less: liabilities assumed:	
Accounts payable and accrued liabilities	(1,696,333)
Asset retirement obligation (note 6)	(172,982)
Bank debt (note 6)	(3,462,086)
Forward contract payable (note 5)	(11,742,162)
Note payable (note 6)	(829,000)
Obligations under capital leases	<u>(1,593,410)</u>
Net assets acquired	<u>\$ 19,394,353</u>
Purchase consideration:	
Cash	
To vendors	\$ 5,000,000
Break fee	150,000
Due diligence and acquisition costs	186,853
Stamp duty	<u>920,000</u>
	6,256,853
Securities given as consideration	
10,500,000 shares at \$0.65 per share	6,825,000
Fair value of 5,250,000 warrants	<u>1,312,500</u>
	8,137,500
Convertible debenture	<u>5,000,000</u>
Total consideration	<u>\$ 19,394,353</u>

The share component amounts to \$6,825,000 and has been determined based on the nine day average closing market value of Brilliant shares centered on the date of announcement of the 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 in the first year, or \$1.25 in the second or third year, subsequent to which the warrants will expire if not exercised by that date. The warrants have an estimated fair value of \$1,312,500, or \$0.25 per warrant. The fair value of the warrants has been estimated using the Black-Scholes option pricing model using the following assumptions:

Brilliant Mining Corp.
Notes to the Consolidated Financial Statements
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June 30, 2006

3. Business Combination, continued

Stock price at issuance	\$0.65
Exercise price	\$1.25
Risk free interest rate	4.04%
Expected hold prior to exercise	3 years
Expected volatility	80%
Dividend yield per share	0%

The \$5,000,000 unsecured convertible debenture issued to the vendors of Donegal bears interest at 10% per annum, payable quarterly, and maturing three years from the date of issuance. 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 in the first two years and \$1.10 in the third year. The Company has the option to prepay the Debenture, in whole or in part, upon thirty days' 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 component liability and equity parts. The equity component of the convertible debenture has been estimated using the Black Scholes option valuation model, and the residual amount is classified as the liability component.

Stamp duty of approximately \$920,000 is payable to the Government of 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. Deposits are denominated in Canadian dollars, Australian dollars, and United States dollars.

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 of June 30, 2006 is US\$10,084,075 (\$11,243,744), and the total amount of Australian dollars receivable under the contracts is AU\$13,305,401 (\$11,011,550).

The forward contracts have been recognized at acquisition date at their fair market value as of that date.

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 do not qualify as financial instruments and are therefore not reflected in the consolidated balance sheet.

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 Project (note 6).

Brilliant Mining Corp.
Notes to the Consolidated Financial Statements
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June 30, 2006

6. 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.

The Lanfranchi JV is currently operating a producing nickel mine. 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 Mine. The Company has assigned a value of \$21,069,452 to its 25% of the Lanfranchi Mine at May 31, 2006. Amortization of the mine property, including acquisition costs and subsequent additions, is based on a units-of-production basis of economically recoverable reserves. The recognized cost of the 25% interest in the Lanfranchi mine includes a future asset retirement cost of AU\$206,450 (\$173,341). Following is a schedule of the balance of the Lanfranchi Mine as recognized on the consolidated balance sheet:

Acquisition (May 31, 2006)	\$	21,069,452
Capitalized mine development costs		54,690
Amortization		<u>(553,686)</u>
Balance, June 30, 2006	\$	<u>20,570,456</u>

Through acquiring Donegal, the Company has assumed an outstanding deferred liability on the original purchase of the Lanfranchi Mine and Tramways tenements of AU\$1,000,000 (\$827,600), 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 outstanding liability are as follows:

	AU\$	CA\$
Payment due December 31, 2006	250,000	206,900
Payment due June 30, 2006	<u>375,000</u>	<u>310,350</u>
Current portion of note payable	625,000	517,250
Payment due December 31, 2007	<u>375,000</u>	<u>310,350</u>
Note Payable	<u>1,000,000</u>	<u>827,600</u>

In addition to the above, the original purchase agreement also requires a contingent payment to the original vendors of AU\$250,000 (\$206,900) within 60 days of delivering 500,000 dry metric tonnes of nickel ore (the "Threshold Production") from the Lanfranchi Nickel Mine. Management's current production estimates do not anticipate reaching the Threshold Production under currently defined reserves, and therefore the contingent consideration has not been recognized in the consolidated financial statements. In the event that management determines that the Threshold Production will be attained, the Company will account for the additional consideration as an increase to the acquisition cost of the Lanfranchi Mine and a resultant liability.

The Company has also assumed a debt facility with the Commonwealth Bank of Australia in the amount of AU\$4,050,000 (\$3,351,780) outstanding from Donegal's purchase of the Lanfranchi Mine and Tramways tenements. 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

Brilliant Mining Corp.
Notes to the Consolidated Financial Statements
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June 30, 2006

6. Lanfranchi Joint Venture, continued

guarantee equivalent to the outstanding balance of the loan. The loan bears interest at the Bank Bill Standard Yield plus 2.5% payable monthly. A schedule of repayments on the principal of the loan follows.

	AU\$	CA\$
July 2006	600,000	496,560
September 2006	900,000	744,840
December 2006	900,000	744,840
March, 2007	1,650,000	1,365,540
 Bank loan	4,050,000	3,351,780

7. Mineral interests

	Ossok West	Ossok East	Michikamau	Scoop	Chesterfield	Potential properties	Total
Balance, September 30, 2005	\$ 96,050	\$ 88,529	\$ 103,824	\$ 67,656	\$ 96,033	\$ -	\$ 452,092
Additions during the period:							
Acquisition	-	-	-	-	1,207	-	1,207
Claims and land use	3,475	25	410	25	8,166	-	12,101
Refundable deposits	(19,700)	(12,800)	35,650	(8,500)	-	-	(5,350)
Airborne surveys	(2,384)	(1,816)	41,503	(1,540)	-	-	35,763
Geological consulting	7,389	4,689	29,729	4,603	6,858	7,484	60,752
Fieldwork	1,440	1,440	2,037	1,445	1,293	-	7,655
Balance, June 30, 2006	\$ 86,270	\$ 80,067	\$ 213,153	\$ 63,689	\$ 113,557	\$ 7,484	\$ 564,220

8. Property, Plant & Equipment

	2006		
	Cost	Accumulated Amortization	Net
Canadian operations			
Computer equipment	\$ 10,270	\$ 770	\$ 9,500
 Australian Operations			
Buildings	48,953	10	48,943
Motor vehicles	44,530	827	43,703
Office furniture & equipment	22,531	702	21,829
Property, plant & equipment	2,204,704	42,901	2,161,803
	2,320,718	44,440	2,276,278
	\$ 2,330,988	\$ 45,210	\$ 2,285,778

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

June 30, 2006

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, 2005	13,579,597	\$ 1,689,581
Issued upon exercise of warrants	1,002,500	217,125
Issued upon exercise of options	15,000	2,400
Issued upon exercise of agent's warrants	146,680	29,336
Issued in private placement - Feb 15, 2006 (note 9(i))	1,100,000	506,000
Issued in private placement - Feb 17, 2006 (note 9(ii))	6,400,000	2,065,000
Issued in private placement - May 25, 2006 (note 9(iii))	12,902,750	10,322,200
Issued as commissions for private placements	708,865	266,759
Issued to acquire Donegal (note 3)	10,500,000	6,825,000
Adjustments to contributed surplus on exercise of agents' warrants	-	10,057
Adjustments to contributed surplus on exercise of options	-	2,250
Share issue costs	-	(2,068,325)
	46,355,392	\$ 19,867,383
Balance June 30, 2006		

- i) On February 15, 2006, the company closed a non-brokered private placement of an aggregate of 1,100,000 units at a price of \$0.46 per unit for aggregate proceeds of \$506,000. Each unit consists of one common share and one non-transferable share purchase warrant entitling the holder to acquire one additional common share at a price of \$0.71 per common share within two years of issuance. Insiders of the corporation purchased an aggregate of 645,000 units.
- ii) On February 17, 2006, the company closed a brokered private placement of 6,400,000 units for gross proceeds of \$2,065,000. Of the units sold, 3,500,000 units sold at a price of \$0.30 per unit, which consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share at an exercise price of \$0.40 per common share. The remaining 2,900,000 units ("flow-through units") sold at a price of \$0.35 per flow-through unit, which consisted of one common share issued as a "flow-through share" and one share purchase warrant entitling the holder to acquire one additional common share at a price of \$0.45 per common share. Each warrant may be exercised at any time within two years of issuance, provided that if at any time after June 17, 2006, the weighted average trading price of the Common Shares on the TSX Venture Exchange exceeds \$1.00 for a period of 10 consecutive days, the Company may, within 30 days of such occurrence, give written notice to the holders of Warrants that the Warrants shall expire on the 30th day following such notice, unless exercised prior to that date. Subsequent to June 30, 2006, the company announced that it had informed holders of such warrants that it had exercised the option to accelerate expiry, and that all warrants (including those agents' warrants described below) will expire on September 25, 2006, if not exercised by that date.

The company paid underwriters' commissions of an aggregate of 550,666 units at a deemed price of \$0.30 per unit, warrants to purchase 512,000 shares at a price of \$0.40 per share expiring in two years from closing, and a corporate finance fee of \$20,000, in addition to the agent's reasonable costs and expenses.

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Notes to the Consolidated Financial Statements
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June 30, 2006

9. Share capital, continued

- iii) On May 12, 2006, the Company announced that it had closed a brokered private placement, originally announced on March 6, 2006, and subsequently revised in an announcement on April 17, 2006. The Company issued 12,902,750 subscription receipts at a price of \$0.80 per subscription receipt for gross proceeds of \$10,322,200, which subscription receipts were exchangeable into units (the "Units") of the Company. The exchange of all of the subscription receipts and the release of the subscription proceeds from escrow was conditional upon closing the Donegal acquisition, which occurred May 25, 2006.

The Company has now issued 12,902,750 units at a price of \$0.80 per unit and received the proceeds net of agents' fees. Each Unit consists of one common share and one half of one common share purchase warrant with each whole warrant exercisable into one common share for two years from the closing date at a price of \$1.05. The Company paid the Agents a commission of 8.0% of the gross proceeds of the offering, payable in a combination of cash or Units, at the election of the Agents. In addition, the Agents received compensation options equal to 10.0% of the Units sold, with each compensation option exercisable into one common share at a price of \$1.00 for two years from closing. Pacific International was paid a corporate finance fee of \$20,000 and was reimbursed for its expenses.

The subscription receipts, the common shares and warrants comprising the Units, including those issued to the Agents in payment of the Agents' commission described above, the common shares issuable upon exercise of the warrants and upon exercise of the Agent's compensation options are subject to a restricted period expiring on September 11, 2006.

c) Warrants

	Number	Weighted average exercise price
Outstanding warrants, September 30, 2005	6,257,800	\$ 0.23
Issued in private placement – Feb 15, 2006 (note 9(i))	1,100,000	0.71
Issued in private placement – Feb 17, 2006 (note 9(ii))	2,900,000	0.45
Issued in private placement – Feb 17, 2006 (note 9(ii))	4,662,666	0.40
Issued in private placement – May 25, 2006 (note 9(iii))	6,505,474	1.05
Agents' warrants issued – May 25, 2006	1,290,275	1.00
Issued to acquire Donegal (note 3)	5,250,000	1.00
Warrants exercised	(1,149,180)	0.21
Outstanding warrants, June 30, 2006	26,817,035	\$ 0.69

Exercise Prices	Number outstanding	Weighted average remaining contractual life in years
\$ 0.20	1,755,000	0.60
0.25	200,000	0.60
0.20	186,520	1.00
0.25	2,992,100	1.00
0.71	1,100,000	1.60
0.40	4,075,666	1.60
0.45	2,900,000	1.60
0.40	562,000	1.60
1.05	6,505,474	1.90
1.00	1,290,275	1.90
1.00	5,250,000	2.90
\$ 0.69	26,817,035	1.80

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9. Share capital, continued

During the period, the Company recorded non-cash share issuance costs of \$820,442 (2005 – \$39,984) relating to the 1,290,275 (2005 – 333,200) agents' warrants granted. The cost has been recorded as a decrease in share capital and as an increase to contributed surplus. The compensation amount was determined based on the fair value of the warrants and certain assumptions as at the grant date. The assumptions used in the current period are as follows:

Risk free interest rate	4.07%
Expected hold period prior to exercise (years)	2
Expected volatility	80%
Dividend yield per share	0%

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility.

Subsequent to June 30, 2006, 795,435 warrants were exercised for an equal number of shares at a weighted average exercise price of \$0.36, for gross proceeds of \$286,934.

10. Stock-Based Compensation

	Number	Weighted average exercise price
Outstanding options, September 30, 2005	915,000	\$ 0.13
Granted	485,000	0.16
Exercised	(15,000)	0.16
Cancelled	(45,000)	0.13
Outstanding options, June 30, 2006	1,340,000	\$ 0.14

Exercise Prices	Number outstanding	Weighted average remaining contractual life in years
\$ 0.13	620,000	2.70
0.115	250,000	3.60
0.16	470,000	4.40
\$ 0.14	1,340,000	3.73

During the period, the Company recorded stock-based compensation of \$72,750 (2005 – 22,500) relating to the 485,000 (2005 – 250,000) options granted. 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 and certain assumptions as at the grant date. The assumptions used are as follows:

Risk free interest rate	3.87%
Expected hold period prior to exercise (years)	5
Expected volatility	142%
Dividend yield per share	0%

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11. Contributed surplus

	June 30, 2006	September 30, 2005
Opening Balance	\$ 168,495	\$ 106,011
Fair value of warrants issued for Donegal acquisition (note x)	1,312,500	-
Fair value of agents' warrants issued	820,442	39,984
Fair value of stock-based compensation	72,750	22,500
Adjustment for options exercised	(2,250)	-
Adjustment for agents' warrants exercised	(10,057)	-
	\$ 2,361,880	\$ 168,495

12. Related party transactions

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

- a) Paid or accrued management fees to companies controlled by directors and officers of the Company in the amount of \$50,451 (June 30, 2005 - \$18,000).
- b) Paid or accrued management fees to a director and officer of the Company in the amount of \$44,313 (June 30, 2005 – nil).
- c) Paid or accrued geological consulting fees to directors and officers of the Company in the amount of \$23,000; (June 30, 2005 - \$18,000) which have been capitalized as mineral interest costs.
- d) Paid or accrued geological consulting fees to companies controlled by directors and officers of the Company in the amount of \$15,201, (June 30, 2005 – nil) which have been capitalized as mineral interest costs.
- e) Accrued a payment of \$50,685 in interest on the convertible debenture payable the Vendors of Donegal who are currently directors of the Company. Note that these directors were not related parties at the time the convertible debenture was issued.

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.

13. Subsequent events

On January 13, 2006, the Company announced that it had agreed to issue 500,000 stock options to an officer of the company under his consultancy contract. These options are exercisable for common shares of the Company at \$0.33 per option; vest over 18 months beginning at the later of i) six months from January 13, 2006 and ii) the granting of shareholder and regulatory approval; and expire on January 23, 2011 provided the officer continues as an officer of the Company. These options are not issued under the Company's stock option plan, though the terms of the options are the same as those issued under the plan. The Company has not reflected these stock options as regulatory and shareholder approvals were not obtained until after June 30, 2006.