

**Brilliant Mining Corp.**

Consolidated Financial Statements

For the years ended September 30, 2008 and 2007



STOUT & COMPANY LLP

CHARTERED ACCOUNTANTS EDMONTON, CANADA

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AUDITORS' REPORT

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To the Shareholders of **Brilliant Mining Corp.**

We have audited the consolidated balance sheets of **Brilliant Mining Corp.** as at September 30, 2008 and 2007 and the consolidated statements of net income (loss), changes in shareholders' equity 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 audits.

We conducted our audits 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 consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada  
January 9, 2009

Chartered Accountants

**Brilliant Mining Corp.**  
Consolidated Balance Sheets

<b>As at September 30</b>	<b>2008</b>	<b>2007</b>
<b>Assets</b>		
Current		
Cash and cash equivalents (note 4)	\$ 5,967,967	\$ 8,966,872
Receivables	3,780,717	1,353,678
Derivative financial instruments (note 11)	255,795	-
Short-term investments (note 11)	316,639	-
Inventories	560,944	347,336
Other	246,270	119,490
	<u>11,128,332</u>	<u>10,787,376</u>
Restricted cash (note 4)	161,094	168,358
Investments (note 11)	937,595	-
Mine property (note 5)	20,949,927	19,779,186
Mineral interests (note 6)	2,008,520	1,958,161
Property, plant, and equipment (note 7)	4,913,785	2,750,569
	<u>40,099,253</u>	<u>35,443,650</u>
<b>Total assets</b>	<b>\$ 40,099,253</b>	<b>\$ 35,443,650</b>
<b>Liabilities</b>		
Current		
Accounts payable and accrued liabilities	\$ 4,252,368	\$ 3,539,085
Capital lease obligations (note 11)	1,468,352	452,168
Derivative financial instruments (note 11)	387,970	-
Income tax payable	299,919	708,706
Note payable (note 11)	-	551,375
	<u>6,408,609</u>	<u>5,251,334</u>
Asset retirement obligation (note 5)	339,874	215,704
Capital lease obligations (note 11)	1,900,875	727,214
Convertible debenture (note 11)	-	4,452,891
Future income taxes (note 9)	1,925,630	1,433,254
	<u>10,574,988</u>	<u>12,080,397</u>
<b>Total liabilities</b>	<b>10,574,988</b>	<b>12,080,397</b>
Shareholders' equity	<u>29,524,265</u>	<u>23,363,253</u>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 40,099,253</b>	<b>\$ 35,443,650</b>

Approved by the Board

Director (signed by) "John Robins"

Director (signed by) "Sean Mager"

**Brilliant Mining Corp.**

## Consolidated Statements of Net Income (Loss)

<b>Years ended September 30</b>	<b>2008</b>	<b>2007</b>
Revenue		
Nickel ore sales	\$ 43,087,557	\$ 46,509,521
Interest	391,858	468,348
Other	19,266	111,146
	<u>43,498,681</u>	<u>47,089,015</u>
Expenses		
Amortization	6,468,622	5,803,854
Concentrator fees	2,427,625	1,650,519
Foreign withholding tax	186,058	-
General and administration	1,610,940	1,512,567
Interest on capital lease obligations	145,936	114,317
Interest and accretion on convertible debenture	478,174	737,092
Interest	8,503	298,275
Mining	11,669,558	6,364,594
Royalties	1,115,090	1,534,472
Smelting	15,077,718	16,412,468
Stock based compensation (note 8)	1,991,056	2,178,689
	<u>41,179,280</u>	<u>36,606,847</u>
	2,319,401	10,482,168
Other income (expenses)		
Foreign exchange	(501,140)	150,474
Loss on derivative financial instruments (note 11)	(144,328)	-
Loss on nickel contracts (note 11)	-	(21,517,008)
Mineral interests write-down (note 6)	-	(255,313)
Adjustment relating to the acquisition of Donegal (note 5)	840,593	-
Gain on convertible debenture (note 11)	622,943	-
Other	(36,515)	(14,784)
	<u>3,100,954</u>	<u>(11,154,463)</u>
Net income (loss) before income taxes		
	3,100,954	(11,154,463)
Current income taxes (note 9)	(492,521)	-
Future income taxes (note 9)	181,156	2,189,303
	<u>2,789,589</u>	<u>(8,965,160)</u>
Net income (loss) for the year		
	\$ 2,789,589	\$ (8,965,160)
Basic net income (loss) per common share (note 8)	\$ 0.04	\$ (0.15)
Diluted net income (loss) per common share (note 8)	\$ 0.04	\$ (0.15)

**Brilliant Mining Corp.**  
Consolidated Statements of Changes in Shareholders' Equity

(In dollars, except number of common shares),

	Number of common shares	Share capital	Contributed Surplus	Convertible debtenture – equity portion	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
October 1, 2006	55,502,719	23,685,378	2,330,970	1,000,000	(7,130,397)	11,477	19,897,428
Net loss for the year ended September 30, 2007	-	-	-	-	(8,965,160)	-	(8,965,160)
Other comprehensive income: Effect of exchange rate fluctuation on translation of net assets of self sustaining foreign operations	-	-	-	-	-	414,108	414,108
Comprehensive loss	-	-	-	-	-	-	(8,551,052)
Stock options vested (note 8)	-	-	2,178,689	-	-	-	2,178,689
Exercise of warrants (note 8)	11,704,355	10,385,528	(1,312,500)	-	-	-	9,073,028
Exercise of agents' warrants (note 8)	1,006,791	1,340,454	(363,263)	-	-	-	977,191
Exercise of stock options (note 8)	553,000	384,290	(167,350)	-	-	-	216,940
Equity portion of interest on convertible debenture	-	-	-	-	(100,274)	-	(100,274)
Share issuance cost recovery (net of \$567 in future income tax)	-	1,178	-	-	-	-	1,178
Future tax effect on renunciation of flow-through expenditures	-	(329,875)	-	-	-	-	(329,875)
	13,264,146	11,781,575	335,576	-	(9,065,434)	414,108	3,465,825
September 30, 2007	68,766,865	35,466,953	2,666,546	1,000,000	(16,195,831)	425,585	23,363,253
<b>Net income for the year ended September 30, 2008</b>	-	-	-	-	<b>2,789,589</b>	-	<b>2,789,589</b>
<b>Other comprehensive loss:</b>	-	-	-	-	-	-	-
Effect of exchange rate fluctuation on translation of net assets of self sustaining foreign operations	-	-	-	-	-	(446,943)	(446,943)
Unrealized loss on available for sale financial assets net of \$165,164 in future income taxes	-	-	-	-	-	(1,156,151)	(1,156,151)
Comprehensive income	-	-	-	-	-	-	1,186,495
Stock options vested (note 8)	-	-	1,991,056	-	-	-	1,991,056
Exercise of warrants (note 8)	3,767,118	3,671,574	-	-	-	-	3,671,574
Exercise of agents' warrants (note 8)	320,484	439,063	(118,579)	-	-	-	320,484
Exercise of stock options (note 8)	124,000	35,320	(16,200)	-	-	-	19,120
Equity portion of interest on convertible debenture	-	-	-	-	(65,206)	-	(65,206)
Settlement of convertible debenture	-	-	-	(1,000,000)	50,000	-	(950,000)
Share issue costs (net of \$4,170 in future income tax)	-	(12,511)	-	-	-	-	(12,511)
	4,211,602	4,133,446	1,856,277	(1,000,000)	2,774,383	(1,603,094)	6,161,012
September 30, 2008	72,978,467	39,600,399	4,522,823	-	(13,421,448)	(1,177,509)	29,524,265

**Brilliant Mining Corp.**

## Consolidated Statements of Cash Flows

Years ended September 30	2008	2007
Cash flows from operating activities		
Net income (loss) for the year	\$ 2,789,589	\$ (8,965,160)
Adjustments for:		
Accretion expense	220,052	375,380
Amortization	6,468,622	5,803,854
Future income taxes	(181,156)	(2,189,303)
Mineral interests write-down	-	255,313
Stock based compensation	1,991,056	2,178,689
Gain on convertible debenture	(622,943)	-
Adjustment relating to the acquisition of Donegal	(840,593)	-
Loss on derivative financial instruments	144,328	-
	<u>9,968,955</u>	<u>(2,541,227)</u>
Foreign currency translation	383,770	414,108
Changes in working capital:		
Receivables	(2,427,039)	1,515,565
Forward contracts	-	20,413
Accounts payable and accrued liabilities	713,283	(1,700,158)
Income taxes payable	(408,787)	40,328
Inventories	(213,608)	(189,632)
Other current assets	(126,780)	37,280
	<u>7,889,794</u>	<u>(2,403,323)</u>
Cash flows from investing activities		
Purchase of short-term investments	(316,639)	-
Purchase of investments	(2,258,910)	-
Mineral interest exploration expenditures	(50,359)	(827,254)
Capitalized Lanfranchi mine expenditures	(5,259,229)	(5,649,185)
Purchases of property, plant, and equipment	(695,708)	(1,450,046)
	<u>(8,580,845)</u>	<u>(7,926,485)</u>
Cash flows from financing activities		
Interest on equity portion of convertible debenture	(65,206)	(100,274)
Repayment of convertible debenture	(5,000,000)	-
Repayment of bank loan	-	(2,870,400)
Repayment of capital lease obligations	(693,034)	(333,459)
Repayment of note payable	(551,375)	(501,175)
Net proceeds from issuance of share capital	3,994,497	10,267,159
	<u>(2,315,118)</u>	<u>6,461,851</u>
Net decrease in cash	(3,006,169)	(3,867,957)
Cash, beginning of year	9,135,230	13,003,187
Cash, end of year (note 4)	<u>\$ 6,129,061</u>	<u>\$ 9,135,230</u>
Cash is composed of:		
Cash and cash equivalents	\$ 5,967,967	\$ 8,966,872
Restricted cash	161,094	168,358
	<u>\$ 6,129,061</u>	<u>\$ 9,135,230</u>

The non-cash transactions described in note 8 have been eliminated from the consolidated statements of cash flows.

## **Brilliant Mining Corp.**

Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

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### **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 km<sup>2</sup> contiguous mineral tenement package (“Tramways tenements”) in Western Australia. Brilliant and Donegal are referred to collectively in these consolidated financial statements as the “Company”.

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

#### Principles of consolidation and preparation of financial statements

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

The consolidated balance sheets include the assets and liabilities of the Company’s wholly owned subsidiaries 1389370 Alberta Ltd. and Donegal Resources Pty Ltd., and its wholly owned subsidiaries Donegal Mining Pty Ltd. and Donegal Lanfranchi Pty Ltd. The consolidated statements of net income (loss), changes in shareholders’ equity and cash flows include the accounts of 1389370 Alberta Ltd. and Donegal.

The accounts of Donegal Lanfranchi Pty Ltd. include its 25% interest in the Lanfranchi Joint Venture, which is accounted for using proportional consolidation whereby the accounts of Donegal Lanfranchi Pty Ltd. include 25% of the Lanfranchi JV’s assets, liabilities and expenses. Donegal’s share of ore produced by the Lanfranchi Joint Venture is sold by it directly.

The consolidated financial statements use the Canadian Dollar as the unit of measurement. All amounts are in Canadian Dollars unless otherwise specified. Where foreign currency amounts are disclosed, the International Organization for Standardization currency symbol is used.

#### Cash and cash equivalents

Cash and cash equivalents is comprised of cash on deposit at one of the Company’s financial institutions and in trust with legal counsel. Restricted cash has been presented as a non-current asset.

#### Comprehensive income and equity

Comprehensive income consists of net income and other comprehensive income (“OCI”). OCI represents changes in shareholders’ equity during a period arising from transactions and other events with non-owner sources. When applicable, components of OCI are recorded net of related income taxes. Cumulative changes in OCI are included in accumulated other comprehensive income (“AOCI”), which is presented as a category of shareholders’ equity in the consolidated statements of changes in shareholders’ equity.

## Brilliant Mining Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

#### Financial instruments

All arms-length financial assets and financial liabilities are initially recorded at fair value on the consolidated balance sheet. Subsequent measurement is determined by the classification of each financial asset and liability according to the following categories:

<b>Financial instrument classification</b>	<b>As classified by the Company</b>	<b>Subsequent measurement of gains or losses at each reporting period end</b>
<ul style="list-style-type: none"><li>• Assets or liabilities held-for-trading</li></ul>	<ul style="list-style-type: none"><li>• Cash and cash equivalents</li><li>• Derivative financial instruments</li><li>• Short-term investments</li></ul>	Fair value; unrealized gains and losses recognized in net income
<ul style="list-style-type: none"><li>• Available-for-sale financial assets</li></ul>	<ul style="list-style-type: none"><li>• Investments</li></ul>	Fair value; unrealized gains and losses recognized in OCI; recognized in net income on sale of the asset or when asset is written down as impaired
<ul style="list-style-type: none"><li>• Loans and receivables</li></ul>	<ul style="list-style-type: none"><li>• Receivables</li></ul>	Amortized cost using the effective interest rate method; if asset is derecognized or impaired, recognized in net income
<ul style="list-style-type: none"><li>• Other financial liabilities</li></ul>	<ul style="list-style-type: none"><li>• Accounts payable and accrued liabilities</li><li>• Capital lease obligations</li><li>• Note payable</li><li>• Convertible debenture</li></ul>	Amortized cost using the effective interest rate method; if liability is derecognized, recognized in net income

For the Company, amortized cost generally corresponds to cost. Certain financial instruments are exempt from the standards, including specific long-term investments, and obligations relating to stock-based compensation.

The Company accounts for regular-way purchases and sales of financial assets on the trade date, being the date on which the Company commits to buy or sell the asset. Transaction costs related to financial assets or financial liabilities classified as other than held-for-trading will be added to the initial carrying value of the financial asset or liability. Where transaction costs relate to available-for-sale financial assets they will be charged to OCI immediately after capitalization as available-for-sale assets are measured at fair value.

Fair value represents point-in-time estimates that may change in subsequent reporting periods due to market conditions or other factors. Estimated fair values are designated to approximate amounts at which the financial instruments could be exchanged in a current transaction between willing parties. Fair value for instruments designated as available-for-sale is based on the closing trading price as of the financial statement date.

#### Foreign currency translation

The Company applies the current rate method in the translation and consolidation of its self-sustaining foreign operations. All assets and liabilities of the Company's self-sustaining foreign operations have been translated into Canadian Dollars at the rate of exchange prevailing at the balance sheet date. Revenue and expense items and cash flows have been translated into Canadian Dollars at the average rate of exchange for the year. Changes in the value of the Company's net investment in self-sustaining foreign operations due to foreign currency movements are recorded as a component of OCI. In the event of a change in the Company's net investment in the self-sustaining foreign operations, the related amount of deferred gains and losses deferred as a component of AOCI will be reflected in the Company's net income.

## **Brilliant Mining Corp.**

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

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#### Asset retirement obligation

Asset retirement costs must be recognized at fair value, when a reasonable estimate of fair value can be made, in the period in which it is incurred. Fair value is estimated using the present value of the estimated future cash outflows to restore and rehabilitate the mining, smelting, and refining sites at the Company's credit-adjusted risk-free interest rate. The calculation of these estimates requires assumptions such as the application of environmental legislation, plant and mine closure dates, available technologies, and engineering cost estimates. The fair value is added to the carrying value of the asset, and amortized into income on a systematic basis over its useful life. The liability is accreted against net income until it is settled or the property is sold and is included as a component of interest. Actual restoration expenditures are charged to the accumulated obligation as incurred.

The Company periodically updates cost estimates and other assumptions used in the valuation of asset retirement obligations for each of its mineral properties to reflect new events, changes in circumstances, and any new information that is available. Changes in these estimates and assumptions have a corresponding impact on the fair value of the asset retirement obligation and are applied prospectively.

#### Flow through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities in Canada funded by flow through share arrangements are renounced to investors in accordance with tax legislation. A future tax liability is recorded and share capital is reduced by future taxes on the date when the expenditures are renounced to the holder of these shares. In the event that the Company has available previously unrecognized future income tax assets at the date of renunciation, the Company recognizes, to the extent of the lesser of the available future income tax assets previously unrecognized or the future income tax liability created by the renunciation of flow through expenditures, a future income tax recovery. The future income tax asset recognized is limited to the amount that is more likely than not to be realized.

#### Future income taxes

The liability method is used for determining income taxes. Under this method, future tax assets and liabilities are recognized for the estimated tax recoverable or payable that would arise if assets and liabilities were recovered or settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances, including changes due to changes in income tax rates, are recognized in income in the period in which they occur. The amount of the future income tax assets recognized is limited to the amount that is more likely than not to be realized.

#### Impairment of long-lived assets

The Company follows CICA Handbook Section 3063, *Impairment of Long-Lived Assets*. This section requires the Company to assess the impairment of long-lived assets, which consist primarily of mine property, mineral interests, and property, plant, and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the asset to its fair value. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value. The amount of the impairment is charged to income in the period when the impairment is determined.

#### Inventories

Inventories are valued at the lower of cost and net realizable value.

## **Brilliant Mining Corp.**

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

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#### Leases

Leases are classified at their inception as either operating or capital leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership. Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased items to the Company are capitalized at the present value of the minimum lease payments as capital lease obligations and the associated leased items are carried as property, plant, and equipment on the consolidated balance sheet. Capitalized leased assets are amortized over their estimated useful lives. Minimum lease payments are allocated between interest expense and a reduction of the capital lease obligation with the interest expense being reflected in net income.

#### Measurement uncertainty

The valuation of mineral interests is based on management's best estimate of the future recoverability of these assets. The amounts recorded for asset retirement obligations are based on estimates described in the section "Asset retirement obligation". The amounts computed with respect to stock-based compensation are based on estimates as to the expected life of options and warrants granted and the volatility of the underlying stock during the period. Future income tax provisions and liabilities are estimated based on the differences between accounting and taxable carrying values and the estimated tax rate and treatment that will be applied when the differences are settled. Amortization of producing mine properties is estimated based on a units-of-production method where the denominator is the proven mineral reserves on the property. Amortization for individual items of property, plant, and equipment is based on management's estimate of the useful economic life of the asset.

By their nature, these estimates are subject to measurement uncertainty and the effect on the consolidated financial statements of changes in such estimates in future periods could be significant.

#### Mineral interests

The Company is in the process of exploring certain of its resource properties and has not yet determined whether these properties contain reserves that are economically recoverable. Resource exploration and development costs are capitalized on an individual area of interest basis until such time as an economically feasible ore body is defined or the prospect is abandoned. Costs for a producing prospect are amortized on a unit-of-production method upon commencement of commercial production based on the estimated economically recoverable reserves, while costs for prospects abandoned are written off. Mineral interest carrying values do not necessarily represent present or future values.

Where the Company's exploration commitments for an area of interest are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the area of interest to the extent of costs incurred. The excess, if any, is credited to operations.

The recoverability of the amount capitalized for the undeveloped resource properties is dependant upon the determination of the economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof. In addition, the resource property costs are evaluated on an annual basis for impairment and, where impairment occurs, related resource costs are written off.

Title to resource properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many resource properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

## Brilliant Mining Corp.

### Notes to the Consolidated Financial Statements

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#### Net income (loss) per common share

Net income (loss) per common share is computed by dividing the net income (loss) by the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if convertible securities and convertible debt were converted to common shares. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the conversion of convertible securities or convertible debt that are in-the-money are assumed to be used to purchase common shares of the Company at the average market price during the period. When the Company is in a net loss position, the conversion of convertible securities and debt is considered to be anti-dilutive.

#### Property, plant, and equipment

Property, plant, and equipment is recorded at cost. The Company provides for amortization using the declining balance method at rates designed to amortize the cost of individual items over their estimated useful lives. The rates used for each class of property, plant and equipment are as follows:

Computer equipment	30 %
Office furniture and equipment	7.5 % - 37.5 %
Buildings	4.5 %
Motor vehicles	18 % - 30 %
Plant and equipment	7.5 % - 15 %
Plant and equipment under capital lease	7.5 % - 15 %

#### 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.

The Company recognizes revenue from the sale of base metal-containing ore from the Lanfranchi Mine in the month of delivery at a provisional market price, being the average London Metal Exchange (“LME”) quoted cash price for nickel for the expected amount of concentrate recoverable from the ore, with a 30% provision for market price and processing adjustments. Upon finalization of analysis and processing three months after delivery, the Company recognizes the remaining 30% of revenue on recovered nickel concentrate with adjustments for market price movements in nickel as quoted by the LME. The final amount of revenue recorded on ore sales, after adjustments, is the average LME-quoted cash market price three months after delivery multiplied by the actual amount of nickel concentrate recovered from the ore, and adjusted for other base metals (e.g. copper) recovered.

#### Stock based compensation

Stock based compensation is accounted for using the fair value method whereby compensation expense related to the issuance of stock options is recorded in the consolidated statement of net loss and deficit with a corresponding increase to contributed surplus. The fair value of options granted are determined at the date of grant and expensed over the vesting period. The fair value of warrants issued to agents is recorded as share issue costs with a corresponding increase to contributed surplus.

Consideration paid on the exercise of stock options and warrants is credited to share capital. Upon the exercise of the stock options and warrants, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. The Company does not incorporate an estimated forfeiture rate for stock options and agents warrants that may not vest, but accounts for forfeitures as they occur.

#### Joint ventures

The Company has an interest in a joint venture which is a jointly controlled operation. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is under joint control. A jointly controlled

## Brilliant Mining Corp.

### Notes to the Consolidated Financial Statements

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operation involves the use of assets and other resources of the venturers rather than establishing a separate entity. The Company recognizes its interest in the jointly controlled operation, the Lanfranchi Joint Venture, by proportionate consolidation, whereby the Company recognizes its share of the assets, liabilities, expenses, and revenues.

#### New accounting policies

Beginning October 1, 2007, the Company has adopted the following new accounting policies:

##### Financial instruments – Presentation and Financial instruments – Disclosure

Effective October 1, 2007, the Company has adopted section 3862 – Financial instruments - Disclosures of the CICA Handbook which, along with CICA section 3863 – Financial instruments – Presentation, replaces section 3861 – Financial Instruments – Disclosure and Presentation. The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements. Additional disclosure regarding the Company's financial instruments as required by these new standards is presented in note 11 to the consolidated financial statements.

##### Capital disclosures

Effective October 1, 2007, the Company has adopted section 1535 – Capital Disclosures of the CICA Handbook. This section establishes standards for disclosing information about a Company's capital and how it is managed in order for a user of the consolidated financial statements to evaluate the Company's objectives, policies, and processes for managing capital. Disclosure required by this new standard is contained in note 11 to the consolidated financial statements.

##### Accounting changes

Effective October 1, 2007, the Company has adopted CICA Section 1506 *Accounting Changes*. This new standard establishes disclosure requirements for new primary sources of GAAP that have been issued but are not yet effective.

The new accounting policies required to be adopted by the Company in the future under currently pronounced GAAP changes are as follows:

##### General Standards of Financial Statement Presentation

The CICA has amended CICA Section 1400 *General Standards of Financial Statement Presentation* of the CICA Handbook to include requirements to assess and disclose the Company's ability to continue as a going concern. This new accounting standard will be adopted by the Company as of October 1, 2008. The adoption of this new standard is not expected to have an impact on the Company's consolidated financial statements.

##### Goodwill and Intangible Assets

The CICA has issued Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. The new accounting standard is effective on the Company's interim and annual financial statements beginning October 1, 2008. This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

## Brilliant Mining Corp.

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### Inventories

The CICA has issued section 3031 – Inventories, which provides expanded guidance on the measurement and disclosure requirements for inventories, and is effective on the Company's interim and annual financial statements beginning October 1, 2008. Specifically, the new standard requires that inventories be measured at the lower of cost and net realizable value, and provides more guidance on the determination of cost and its subsequent recognition as expense, including any write-down to net realizable value. The Company is assessing the effect of the new standard and does not anticipate a material effect on its results.

### Convergence with International Financial Reporting Standards

In February 2008, the Accounting Standards Board confirmed that Canadian Generally Accepted Accounting Principles for publicly accountable enterprises will be converged with International Financial Reporting Standards ("IFRS") effective for the Company's interim and annual financial statements beginning on October 1, 2011. The Company is currently evaluating the impact of the adoption of IFRS.

### 3. Segmented information

The Company's operations are managed on a regional basis. The two regional operational segments are Canada and Australia. Property, plant, and equipment is disclosed in note 7 in a manner consistent with the requirements for segmented information.

The following table allocates assets by segment:

As at September 30	2008	2007
Canada	\$ 4,406,200	\$ 10,013,410
Australia	<u>35,693,053</u>	<u>25,430,240</u>
Total assets	<u>\$ 40,099,253</u>	<u>\$ 35,443,650</u>

The following tables allocate revenues and net income (loss) by segment:

Year ended September 30	2008	2007
Canada	\$ 159,024	\$ 360,186
Australia	<u>43,339,657</u>	<u>46,728,829</u>
Total revenues	<u>\$ 43,498,681</u>	<u>\$ 47,089,015</u>
Year ended September 30	2008	2007
Canada	\$ 38,283	\$ (3,628,385)
Australia	<u>2,751,306</u>	<u>(5,336,775)</u>
Net income (loss)	<u>\$ 2,789,589</u>	<u>\$ (8,965,160)</u>

## Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

### 4. Cash and cash equivalents

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 (2007 - \$25,000) of cash as security to one of the Company's financial institutions for corporate credit card liabilities. In addition, cash includes a restricted amount of AUD 162,500 (\$136,094) (2007 – AUD 162,500 (\$143,358)) 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. These items have been classified as a non-current asset due to the restrictions above.

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

### 5. Mine property – Lanfranchi Joint Venture

The Company has a 25% interest in the Lanfranchi Joint Venture (“Lanfranchi JV”) which includes the producing Lanfranchi Nickel Mine and a sublease over the Lanfranchi and associated Tramways tenements, consisting of 37 mineral leases over 50 km<sup>2</sup> 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.

#### Lanfranchi mine

The primary asset of the Lanfranchi JV is the Lanfranchi Nickel 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 sheets (reflecting foreign currency exchange rates at September 30, 2008 and September 30, 2007):

	2008	2007
Balance, beginning of year	\$ 19,779,186	\$ 18,782,365
Contingent acquisition cost	-	220,550 <sup>(1)</sup>
Exploration and evaluation	1,126,779	682,599
Pre-production	314,060	3,813,058
Mine development	5,432,012	836,203
Other capitalized costs	136,751	19,291
Foreign currency translation adjustment	(785,610)	298,034
Amortization	(5,053,251)	(4,872,914)
Balance, end of year	<u>\$ 20,949,927</u>	<u>\$ 19,779,186</u>

Note 1: The original purchase agreement between Donegal and the original vendors of the Lanfranchi assets required a contingent payment of AUD 250,000 (\$220,550 at September 30, 2007) within 60 days of delivering a cumulative 500,000 dry metric tonnes of nickel ore (the “Threshold Production”) from the Lanfranchi Nickel Mine. At September 30, 2007, management had estimated that the Threshold Production would be attained in the 2008 fiscal year and recognized the additional purchase consideration. During the year ended September 30, 2008, the Threshold Production was reached and the contingent payment was paid.

#### Purchase price adjustment

In the allocation of the purchase price of Donegal during the year ended September 30, 2006, the Company had accrued stamp duty payable of \$885,250 as a component of the purchase price of Donegal. During the year ended September 30, 2008, the Company determined that the accrued stamp duty was not payable due to particular conditions of Donegal as at the date of acquisition. The Company has recorded a gain of \$840,593 during the current year as a result of the reversal of the purchase price accrual, net of costs incurred in making the determination.

## Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

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### Asset retirement obligation

The Company has also recognized an asset retirement obligation (“ARO”) relating to reclamation activities estimated to be required upon termination of mining activities at the Lanfranchi Nickel Mine. The ARO was estimated by management based on the Company’s ownership interest in the Lanfranchi Nickel Mine, estimated costs to reclaim and abandon the Lanfranchi Nickel Mine, and estimated timing of such abandonment.

The following table reconciles the balance of the ARO and its additions and accretion in the years ended September 30, 2008 and 2007.

	2008	2007
Asset retirement obligation, beginning of year	\$ 215,704	\$ 176,320
Additional obligations identified during the year	136,751	-
Accretion	10,770	39,384
Foreign currency translation adjustment	<u>(23,351)</u>	<u>-</u>
Asset retirement obligation, end of year	<u>\$ 339,874</u>	<u>\$ 215,704</u>

### Lanfranchi Joint Venture

The consolidated financial statements include the Company’s proportionate interest in the assets, liabilities, revenues, expenses, and cash flows of the Lanfranchi Joint Venture. The Company’s aggregate interest in such items is disclosed below:

#### **Selected balance sheets**

<b>As at September 30</b>	<b>2008</b>	<b>2007</b>
Current assets	\$ 2,356,592	\$ 607,677
Non-current assets	<u>14,199,637</u>	<u>8,878,725</u>
	<u>16,556,229</u>	<u>9,486,402</u>
Current liabilities	4,838,955	2,460,932
Non-current liabilities	<u>2,296,288</u>	<u>965,927</u>
	<u>\$ 7,135,243</u>	<u>\$ 3,426,859</u>

#### **Condensed statements of loss**

<b>Years ended September 30</b>	<b>2008</b>	<b>2007</b>
Revenue	\$ 50,023	\$ 34,605
Expenses	<u>(16,260,372)</u>	<u>(8,737,091)</u>
Net loss for the year	<u>\$ (16,210,349)</u>	<u>\$ (8,702,486)</u>

## Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

### Condensed statements of cash flows

Years ended September 30	2008	2007
Cash flows used in:		
Operating activities, net	\$ (9,600,567)	\$ (6,292,007)
Investing activities, net	(8,753,434)	(6,729,119)
Financing activities, net	<u>19,715,558</u>	<u>13,074,232</u>
Net cash flows	<u>\$ 1,361,557</u>	<u>\$ 53,106</u>

### 6. Mineral interests

Additions (In dollars)	Ossok West	Ossok East	Michikamau	Scoop	Chesterfield	Total
Balance, September 30, 2006	117,181	80,568	1,013,725	63,689	111,057	1,386,220
Claims and land use	-	-	29,650	-	-	29,650
Refundable deposits	-	-	(350)	-	-	(350)
Geological consulting	1,200	-	31,550	-	-	32,750
Assaying	-	-	8,734	-	-	8,734
Fieldwork	12,280	(1)	744,191	-	-	756,470
Write down	-	(80,567)	-	(63,689)	(111,057)	(255,313)
Balance, September 30, 2007	130,661	-	1,827,500	-	-	1,958,161
Acquisition cost	-	-	20,000	-	-	20,000
Claims and land use	-	-	1,750	-	-	1,750
Refundable deposits	21,812	-	(28,251)	-	-	(6,439)
Geological consulting	450	-	9,632	-	-	10,082
Assaying	-	-	7,966	-	-	7,966
Fieldwork	-	-	17,000	-	-	17,000
Balance, September 30, 2008	<u>152,923</u>	-	<u>1,855,597</u>	-	-	<u>2,008,520</u>

Balances (In dollars)	Ossok West	Michikamau	Total
Acquisition cost	-	58,155	58,155
Claims, land use and refundable deposits	29,227	141,170	170,397
Exploration	<u>123,696</u>	<u>1,656,272</u>	<u>1,779,968</u>
	<u>152,923</u>	<u>1,855,597</u>	<u>2,008,520</u>

The Company has taken steps to verify title to resource properties in which it has an interest. However, these procedures do not guarantee the Company's title as property title may be subject to unregistered prior agreements and potential non-compliance with exploration expenditure and reporting requirements.

## **Brilliant Mining Corp.**

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

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#### Michikamau

On February 3, 2005, the Company signed a letter of agreement with Hunter Exploration Group to acquire a 100% interest in the Michikamau Project property in Labrador. Consideration for this acquisition consisted of a cash payment of \$27,960 representing a refundable deposit with the Newfoundland government; and the issuance of 200,000 units (one common share plus one common share warrant of the Company exercisable within two years at an exercise price of \$0.25) at a deemed price of \$0.115 per unit, which was equal to the approximate market value at that time.

The mineral interest is subject to a 2% net smelter royalty and the agreement requires advanced royalty payments of \$10,000 per annum, commencing October 1, 2006.

During the year ended September 30, 2006, the Company staked additional claims at the Michikamau property, which are 100% owned by the Company. During the year ended September 30, 2008, the Company allowed several claims in the Michikamau claim group to lapse. The Company has retained the claims assessed to be of the highest prospectivity and has not written down the carrying value of the property.

#### Ossok West and Ossok East

On February 22 and March 2, 2005, the Company staked two claim groups in the Ossok Mountain region of western Labrador, named Ossok West and Ossok East, which are Platinum Group Elements – Nickel – Copper (PGE-Ni-Cu) properties totaling over 120 square kilometers.

During the year ended September 30, 2007, management assessed that the Ossok East area of interest lacked merit relative to other opportunities and has therefore allowed the associated claims to lapse and has written down the carrying value resulting in a charge to net income of \$80,567, classified as mineral interest write-down.

#### Scoop

In June 2005, the Company staked a claim in the Scoop property in Newfoundland-Labrador which is a Ni-Cu-Co-PGE property.

Based on geological data on the Scoop property to date, management assessed that the Scoop property lacks merit relative to other opportunities and has allowed the claims constituting the property to lapse. As a result, the carrying balance of the Scoop property was written down during the year ended September 30, 2007, resulting in a charge to net income of \$63,689, classified as mineral interest write-down.

#### Chesterfield

On January 7, 2005 the Company signed an agreement with Falconbridge Limited to acquire a 100% interest in 15 prospecting permits in the Chesterfield Property in Nunavut. To acquire this mineral interest the Company was to incur \$1 million in exploration expenditures on the property by November 30, 2008, including the requirement to stake and then maintain annual assessment work on certain specified claims as well as certain specified survey and drilling programs. Under the terms of this original agreement, the mineral interest is subject to a 1% net smelter royalty on gold deposits, a 2.5% net smelter royalty on base metal deposits and 1% gross overriding royalty on diamond deposits to the vendor as well as certain earn-in rights and a right of first refusal to the vendor.

Management has written down the carrying value of the Chesterfield property as management's assessment is that the property lacks merit relative to other opportunities at this time. The claims have been returned to Falconbridge Limited in good standing. This write-down resulted in a charge to net income of \$111,057, classified as mineral interest write-down during the year ended September 30, 2007.

## Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

### 7. Property, plant, and equipment

As at September 30, 2008

	Cost	Accumulated Amortization	Net
<b>Canadian operations</b>			
Computer equipment	\$ 46,278	\$ 20,003	\$ 26,275
Office furniture and equipment	8,016	3,142	4,874
	<u>54,294</u>	<u>23,145</u>	<u>31,149</u>
<b>Australian operations</b>			
Buildings	49,538	265	49,273
Office furniture and equipment	24,943	12,517	12,426
Plant and equipment	2,855,867	937,528	1,918,339
Plant and equipment under capital lease	4,205,608	1,303,010	2,902,598
	<u>7,135,956</u>	<u>2,253,320</u>	<u>4,882,636</u>
	<u>\$ 7,190,250</u>	<u>\$ 2,276,465</u>	<u>\$ 4,913,785</u>

As at September 30, 2007

	Cost	Accumulated Amortization	Net
<b>Canadian operations</b>			
Computer equipment	\$ 23,270	\$ 8,741	\$ 14,529
Office furniture and equipment	8,016	1,924	6,092
	<u>31,286</u>	<u>10,665</u>	<u>20,621</u>
<b>Australian operations</b>			
Buildings	52,182	169	52,013
Motor vehicles	-	-	-
Office furniture and equipment	26,275	8,941	17,334
Plant and equipment	1,554,069	372,720	1,181,349
Plant and equipment under capital lease	1,710,205	677,622	1,032,583
Capital projects under construction	446,669	-	446,669
	<u>3,789,400</u>	<u>1,059,452</u>	<u>2,729,948</u>
	<u>\$ 3,820,686</u>	<u>\$ 1,070,117</u>	<u>\$ 2,750,569</u>

At September 30, 2008, the Company had, through its interest in the Lanfranchi Joint Venture, committed to purchase plant and equipment with a capital cost to the Company of \$1,344,187 (2007 – nil). This amount is payable within one year of the balance sheet date and has not been recognized as a liability.

### 8. Share capital

The Company's bylaws authorize an unlimited number of Class "A" common shares and an unlimited number of Class "B" preferred shares.

Other than those due to the exercise of share purchase warrants and stock options, there have been no share issuances in the current or comparative period.

## Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

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### Per share calculations

For the year ended September 30, 2008, the basic weighted average number of common shares outstanding is 70,648,754 (2007 – 61,404,614) and the diluted weighted average number of common shares outstanding is 72,782,099. For the year ended September 30, 2007, the exercise of dilutive securities would be anti-dilutive as the Company was in a net loss position.

### Warrants

A summary of share purchase warrant activity is as follows:

	Number of warrants	Weighted average exercise price (\$)
Outstanding warrants, September 30, 2006	17,591,999	0.84
Exercised	<u>(12,711,146)</u>	0.79
Outstanding warrants, September 30, 2007	4,880,853	0.99
Exercised	(4,087,602)	0.98
Expired	<u>(793,251)</u>	1.05
<b>Outstanding warrants, September 30, 2008</b>	<b><u>-</u></b>	<b>-</b>

### Stock options

Pursuant to the Company's stock option plan (the "Plan") for directors, officers, employees, and consultants, the Company may reserve a maximum of 10% of the issued and outstanding listed common shares; the exercise price to be determined on the date of issuance of the options.

The options are non-transferable and will expire, if not exercised, 90 days following the date the optionee ceases to be a director, officer, consultant or employee of the Company for reasons other than death, one year after the death of an optionee or on the fifth anniversary of the date the option was granted.

A summary of stock option activity is as follows:

	Number of options	Weighted average exercise price (\$)
Outstanding options, September 30, 2006	2,445,000	0.28
Granted under the Plan	3,775,000	0.97
Exercised	(553,000)	0.39
Expired	<u>(25,000)</u>	1.50
Outstanding options, September 30, 2007	5,642,000	0.72
Granted under the Plan	1,675,000	1.61
Exercised	(124,000)	0.15
Expired	<u>(325,000)</u>	1.58
<b>Outstanding options, September 30, 2008</b>	<b><u>6,868,000</u></b>	<b>0.91</b>

**Brilliant Mining Corp.**

Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

A summary of options issued is as follows:

	Number of options issued	Weighted average exercise price (\$)	Weighted average fair value (\$)
<b>Year ended September 30, 2007</b>			
Exercise price above market price at grant date	-	-	-
Exercise price equal to market price at grant date	3,000,000	0.81	0.53
Exercise price below market price at grant date	<u>775,000</u>	1.50	1.27
	<u>3,775,000</u>	0.97	0.68
<b>Year ended September 30, 2008</b>			
Exercise price above market price at grant date	900,000	1.70	1.06
Exercise price equal to market price at grant date	-	-	-
Exercise price below market price at grant date	<u>775,000</u>	1.50	1.15
	<u>1,675,000</u>	1.61	1.10

A summary of the options outstanding at September 30, 2008 is as follows:

Exercise price (\$)	Number of options outstanding	Number of options exercisable	Remaining contractual life in years
0.13	528,000	528,000	0.5
0.115	160,000	160,000	1.3
0.16	310,000	310,000	2.1
0.33	500,000	500,000	2.3
0.55	270,000	270,000	2.8
0.80	2,950,000	2,950,000	3.0
1.50	500,000	500,000	3.5
2.50	25,000	25,000	3.6
1.50	725,000	100,000	4.0
1.70	<u>900,000</u>	<u>900,000</u>	4.1
<u>0.91</u>	<u>6,868,000</u>	<u>6,243,000</u>	<u>3.0</u>

During the year ended September 30, 2008, the Company recognized stock based compensation related to stock options issued and vesting during the year totaling \$1,991,056 (2007 - \$2,178,689).

During the year ended September 30, 2008, the Company issued 1,675,000 stock options with a weighted average exercise price of \$1.61 and a weighted average estimated fair value of \$1.10. The fair values were estimated using the Black Scholes option pricing model using the following weighted average assumptions: stock price \$1.61; risk-free interest rate 4.23%; expected volatility 80.0%; and expected annual dividends of 0%.

During the year ended September 30, 2007, the Company issued a total of 3,775,000 stock options with a weighted average exercise price of \$0.97 and a weighted average estimated fair value of \$0.68. The fair values were estimated using the Black Scholes option pricing model using the following weighted average assumptions: stock price \$1.01; risk-free interest rate 4.07%; expected volatility 80%; and expected annual dividends of 0%.

## Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

### 9. Income taxes

The components of the future income tax liability are as follows:

	2008	2007
Mine property	\$ 2,881,997	\$ 3,222,896
Mineral interests	172,934	224,814
Property, plant, and equipment	(5,786)	(7,383)
Undeducted share issue costs	(136,582)	(264,474)
Investments	(165,164)	-
Other	(121,468)	(61,247)
Income tax losses carried forward	(700,301)	(2,619,689)
	<u>1,925,630</u>	<u>494,917</u>
Valuation allowance	-	938,337
Future income tax liability	<u>\$ 1,925,630</u>	<u>\$ 1,433,254</u>

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the combined statutory income tax rate of approximately 29.95% (2007 – 32.18%) to the net income (loss) before income taxes for the years as follows:

	2008	2007
Expected tax expense (recovery)	\$ 928,590	\$ (3,589,429)
Difference resulting from:		
Stock based compensation	600,303	786,942
Gain on settlement of convertible debenture	(187,817)	
Adjustment relating to the acquisition of Donegal	(252,178)	-
Mine costs	346,788	630,336
Foreign exchange	224,640	116,669
Mineral interests write-down	-	92,219
Other	64,784	(32,298)
Change in tax rates	163,903	(104,516)
Reduction of estimate of prior year's taxes	(639,311)	-
Change in valuation allowance	(938,337)	(89,226)
Income tax expense (benefit)	<u>\$ 311,365</u>	<u>\$ (2,189,303)</u>
Current income tax expense	\$ 492,521	\$ -
Future income tax benefit	<u>(181,156)</u>	<u>(2,189,303)</u>
Income tax expense (benefit)	<u>\$ 311,365</u>	<u>\$ (2,189,303)</u>

### 10. Related party transactions

During the year, the Company incurred management consulting fees included in general and administrative expenses of \$277,700 (2007 - \$213,708) to directors and officers or companies controlled by directors. In the year ended September 30, 2007, the Company incurred capitalized geological consulting fees of \$7,125 for technical services provided by directors or companies controlled by directors. All amounts were fully paid at September 30, 2008 and 2007.

## Brilliant Mining Corp.

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

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The Company paid the aggregate principal amount of \$5,000,000 and accrued and paid interest of \$326,028 (2007 - \$500,000) on the convertible debenture (note 11) payable to the vendors of Donegal. Of the interest amount, \$260,822 (2007 - \$399,726) was included as a component of convertible debenture interest expense, and \$65,206 (2007 - \$100,274) was accounted for as a reduction of shareholders' equity. All accrued interest and the principal amount were fully paid at September 30, 2008.

At September 30, 2008 the Company had accounts payable to companies with common directors the amount of \$58,529 (2007 - nil) relating to the reimbursement of shared office, staff, and administrative costs. The amounts were paid subsequent to September 30, 2008 (2007 - nil).

These amounts are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties based on standard commercial terms.

## 11. Financial instruments

### Held-for-trading financial instruments

#### *Derivative financial instruments*

The Company regularly enters into monthly forward foreign exchange contracts to exchange United States Dollars ("USD"), received from the sale of nickel concentrate, for Australian Dollars ("AUD") at a fixed forward rate over short term periods. The Company also regularly enters into monthly forward commodity price swap contracts to settle on a cash basis the difference between a fixed (contracted) price and a floating (market) price for nickel concentrate over short term periods. These contracts, collectively referred to as "Derivative financial instruments," are financial instruments classified by the Company as held-for-trading assets or liabilities. As such, the derivative financial instruments are carried at fair value with unrealized gains and recognized as a component of net income in the period of change. The Derivative financial instruments are entered into to hedge a portion of the Company's receipts from sales of its share of ore from the Lanfranchi Nickel Mine, which are denominated in USD, against foreign currency and commodity price fluctuations.

At September 30, 2008, the Company was party to foreign exchange and commodity price swap contracts (collectively, "Derivative financial instruments".) The Company has not applied hedge accounting to these derivatives.

At September 30, 2008 the Company was party to foreign exchange swap contracts to convert an aggregate USD 4,000,000 to AUD at a weighted average rate of 0.88 USD:AUD. The net fair value of these contracts at September 30, 2008, is a liability of \$387,970 as determined with reference to the forward exchange curve from the issuing entity and the applicable exchange rate at the reporting date.

At September 30, 2008, the Company was party to forward commodity price swap contracts for an aggregate 90 tonnes of nickel concentrate at an average fixed price per tonne of USD19,180. The net fair value of these contracts at September 30, 2008, is \$255,795 with reference to the forward commodity price curve from the issuing entity and the spot price of nickel at the reporting date.

The Company was not party to any derivative financial instruments or other held-for-trading financial instruments at September 30, 2007.

#### *Short-term investments*

At September 30, 2008, the Company held a liquid Banker's Acceptance note with a fixed interest rate of 2.70% maturing on March 30, 2009 with a carrying value of \$316,639. The carrying value of the Bankers' Acceptance note approximates its fair value.

## **Brilliant Mining Corp.**

### Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

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#### Available-for-sale financial instruments

##### *Investments*

During the year ended September 30, 2008, the Company acquired marketable securities for a gross cost of \$2,258,910. This investment has been classified as available-for-sale; consequently the investment is carried at its fair value (with reference to the quoted stock exchange price) with unrealized gains and losses recognized as a component of other comprehensive income. The fair value of the marketable securities at September 30, 2008 was \$937,595. The Company did not own any marketable securities or other available-for-sale financial instruments at September 30, 2007.

#### Other financial liabilities

##### *Note payable*

At September 30, 2007 the Company had an outstanding non-interest bearing note payable as remaining consideration payable on the original acquisition of the Lanfranchi Nickel Mine by Donegal in the amount of AUD 375,000 (\$330,825) payable on December 31, 2007. In addition, the original purchase agreement between Donegal and the original vendors of the Lanfranchi assets also required a contingent payment to the original vendors of AUD 250,000 (\$220,550), representing 25% of the total contingent consideration to be paid, within 60 days of delivering a cumulative 500,000 dry metric tonnes of nickel ore (the "Threshold Production") from the Lanfranchi Nickel Mine. Management had determined at September 30, 2007 that the Threshold Production would be reached during the 2008 fiscal year. As such, the contingent consideration had been recognized in the Company's consolidated financial statements as at September 30, 2007.

These amounts were paid in the year ended September 30, 2008.

##### *Convertible debenture*

In May of 2006, the Company issued a \$5,000,000 unsecured convertible debenture to the vendors of Donegal, bearing interest at 10% per annum, payable quarterly, and maturing on May 25, 2009. The convertible debenture was classified by the Company as an other financial liability and measured at amortized cost using the effective interest rate method. Under the terms of the convertible debenture, the principal amount outstanding was 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 per share on or before May 25, 2008 and \$1.10 per share on or before May 25, 2009. The Company had 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 was presented on the consolidated balance sheet in its separate liability and equity components based on the ratio of estimated fair value of each component. Interest incurred on the equity component of the convertible debenture was accounted for as an increase in the Company's deficit. Interest on the liability portion and the accretion of the liability component to its face value at maturity was classified as interest expense.

Pursuant to notice given to the holders of the convertible debenture, the Company, on May 28, 2008, settled the convertible debenture by paying the full principal in cash, along with accrued interest to the date of repayment. The early settlement of the convertible debenture has been recorded by assessing the fair values of the equity and liability components of the convertible debenture as at the date of settlement and allocating the consideration paid accordingly. As a result, the company has recognized a gain on early settlement of the liability component of \$622,943, reflected in the year's net income, and a gain on the equity component of \$50,000, which has been recognized as a reduction of the Company's deficit.

##### *Capital lease obligations*

The Company, through its interest in the Lanfranchi JV, is party to its proportionate share of capital lease obligations relating to mining equipment employed at the Lanfranchi Nickel Mine. The obligations are secured against the equipment under capital lease and are classified as other financial liabilities. The Company's share of the minimum payments required under the terms of the leases for each of the fiscal years applicable is as follows:

## Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

	2008	2007
2008	\$ -	\$ 527,386
2009	1,673,925	626,460
2010	1,213,735	139,040
2011	805,452	-
	<u>3,693,112</u>	<u>1,292,886</u>
Less: interest at an average of 8.28%	<u>(323,885)</u>	<u>(113,504)</u>
Total capital lease obligation	3,369,227	1,179,382
Less: current portion of capital lease obligations	<u>(1,468,352)</u>	<u>(452,168)</u>
Non-current portion of capital lease obligations	<u>\$ 1,900,875</u>	<u>\$ 727,214</u>

The leases are secured by the plant and equipment under capital lease as disclosed in note 7.

### Fair value

Due to their short term nature, the fair value of cash and cash equivalents, receivables, short-term investments, derivative financial instruments, and accounts payable and accrued liabilities are assumed to approximate carrying values.

The fair values of the note payable and the liability portion of the convertible debenture at September 30, 2007 approximate their carrying values.

The fair value of capital lease obligations attributable to the Company through its interest in the Lanfranchi JV approximates its carrying value as the joint venture's cost of borrowing is comparable to its cost of borrowing at the inception of the leases.

### Capital management

The Company's capital consists of: cash and cash equivalents and share capital. The Company may also utilize debt facilities or instruments, including convertible debt instruments for capital management.

The Company's objectives in managing its capital are: to maintain adequate levels of funding to support its operating and capital expenditure obligations arising from the Company's investment in the Lanfranchi Joint Venture; to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to perform mineral exploration activities on the Company's exploration projects; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured through the sale of its share of nickel ore produced at the Lanfranchi Nickel Mine and, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of operating cash deficits.

The Company may, from time to time, invest capital that is surplus to immediate operational needs in short-term, liquid, and highly rated financial instruments held with major financial institutions, or in marketable securities. The Company may also, from time to time, enter into forward foreign exchange and commodity price contracts to hedge a portion of its exposure to movements in foreign exchange and commodity prices. The company does not maintain a formal hedging strategy.

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### Notes to the Consolidated Financial Statements

For the years ended September 30, 2008 and 2007

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#### Risk management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

#### *Interest risk*

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments.

The Company had approximately \$6.0 Million in cash and cash equivalents at September 30, 2008, on which it earns variable rates of interest, and is therefore subject to a certain amount of risk, though this risk is deemed to be immaterial to management of the Company. At September 30, 2008, the Company held a bankers' acceptance note with a major Canadian financial institution. The bankers' acceptance note is highly liquid and earns a fixed rate of interest and is therefore not materially subject to interest risk. The Company's capital lease obligations are fixed-interest bearing liabilities and are therefore not subject to interest rate risk.

#### *Credit risk*

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents, accounts receivable, short-term investments, and derivative financial instruments.

The Company has assessed its exposure to credit risk and has determined that such risk is minimal. The material majority of the Company's cash and cash equivalents are held with financial institutions in Canada and Australia. Cash and cash equivalents held with the Company's Canadian financial institution are guaranteed in full by the Crown in Right of Alberta. The Company's short-term investments are invested in one of the major chartered Canadian banks. A substantial amount of the Company's receivables is due from one party which is a subsidiary of BHP Billiton, one of the largest mining companies in the world. The Company has determined that no significant risks exist from these concentrations of credit.

#### *Foreign currency risk*

Foreign currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates.

The Company's operations in Australia, including its mining and mine development operations incurred through the Lanfranchi JV are denominated in Australian Dollars. The Company's receipts from the sale of nickel ore produced by the Lanfranchi Nickel Mine are denominated in United States Dollars. The Company's corporate costs and share capital, as well as the Company's reporting currency, is in Canadian Dollars. The Company, from time to time, enters into forward foreign exchange contracts to hedge a portion of its US Dollar receipts from the sale of nickel ore, though it does not maintain a formal hedging strategy.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due.

Working capital (current assets less current liabilities) at September 30, 2008 is \$4.7 Million. Management estimates that, provided operations and development at the Lanfranchi Nickel Mine are at minimum cash neutral, that working capital will be sufficient for corporate administration and general working capital for the coming year. In the case of cash deficits arising from operating and investing activities at the Lanfranchi Nickel Mine, the Company may have to seek debt or equity financing. There can be no assurances that such financing will be available on terms acceptable to the Company.

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The Company's only non-current cash obligations consist of the non-current portion of capital lease obligations and equipment contracted to be purchased at September 30, 2008, the latter of which is not recognized as a liability. These obligations are expected by management to be met through operating profits at the Lanfranchi Nickel Mine over the long term.

### **12. Comparative figures**

These consolidated financial statements have been reclassified, where applicable, to conform to the presentation used in the current year.