

# **Brilliant Mining Corp**

## **Consolidated Financial Statements**

For the years ended September 30, 2006 and 2005



**Brilliant Mining Corp**  
**Consolidated Balance Sheets**

September 30, 2006      September 30, 2005

<b>ASSETS</b>		
<b>Current</b>		
Cash (note 4)	\$ 13,003,187	\$ 307,285
Accounts receivable	2,869,243	47,419
Forward contracts (note 5)	20,413	-
Other	320,615	-
	16,213,458	354,704
<b>Mine property (note 6)</b>	18,782,365	-
<b>Mineral interests (note 8)</b>	1,386,220	452,092
<b>Property, plant, and equipment (note 9)</b>	2,231,463	-
	2,231,463	-
<b>TOTAL ASSETS</b>	\$ 38,613,506	\$ 806,796
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 5,239,243	\$ 113,938
Bank loan (note 6)	2,870,400	-
Capital lease obligations (note 10)	295,175	-
Income tax payable	668,378	-
Note payable (note 6)	520,000	-
	9,593,196	113,938
<b>Asset retirement obligation (note 6)</b>	176,320	-
<b>Capital lease obligations (note 10)</b>	1,217,666	-
<b>Convertible debenture (note 3)</b>	4,116,895	-
<b>Future income taxes (note 14)</b>	3,300,001	-
<b>Note payable (note 6)</b>	312,000	-
	3,300,001	-
<b>TOTAL LIABILITIES</b>	18,716,078	113,938
<b>Shareholders' equity</b>		
Share capital (note 11)	23,685,378	1,689,581
Contributed surplus (note 13)	2,330,970	168,495
Convertible debenture – equity portion (note 3)	1,000,000	-
Cumulative foreign currency translation balance	11,477	-
Deficit	(7,130,397)	(1,165,218)
	(7,130,397)	(1,165,218)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	19,897,428	692,858
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	\$ 38,613,506	\$ 806,796

Approved By The Board

Director (signed by) "John Williamson"

Director (signed by) "Sean Mager"

**Brilliant Mining Corp**  
**Consolidated Statements of Loss and Deficit**

	Year ended September 30 2006	Year ended September 30 2005
<b>Revenue</b>		
Nickel ore sales	\$ 8,549,849	\$ -
Interest	155,974	5,183
Other	47,675	-
	<u>8,753,498</u>	<u>5,183</u>
<b>Expenses</b>		
Amortization	3,155,503	-
General and administrative	1,105,754	100,348
Interest on capital lease obligations	38,631	-
Interest on convertible debenture	257,169	-
Interest	87,425	-
Mining	2,336,611	-
Royalties	183,165	-
Stock based compensation (note 12)	395,057	22,500
	<u>7,559,315</u>	<u>122,848</u>
	<u>1,194,183</u>	<u>(117,665)</u>
<b>Other expenses</b>		
Loss on nickel contracts	2,924,287	-
Loss on forward contracts	164,930	-
Mineral interests written off	-	555,812
Realized foreign exchange loss	63,697	-
Unrealized foreign exchange loss	159,302	-
	<u>3,312,216</u>	<u>555,812</u>
<b>Net loss before income tax</b>	<b>(2,118,033)</b>	<b>(673,477)</b>
Current income tax	(682,759)	-
Future income tax	<u>(3,129,319)</u>	<u>-</u>
<b>Net loss</b>	<b>(5,930,111)</b>	<b>(673,477)</b>
<b>Deficit, beginning of year</b>	<b>(1,165,218)</b>	<b>(491,741)</b>
Equity portion of interest on convertible debenture	<u>(35,068)</u>	<u>-</u>
<b>Deficit, end of year</b>	<b>\$ (7,130,397)</b>	<b>\$ (1,165,218)</b>
<b>Basic and diluted net loss per common share</b>	<b>\$ (0.21)</b>	<b>\$ (0.07)</b>
<b>Weighted average number of common shares</b>	<b>28,095,535</b>	<b>9,747,827</b>

## Brilliant Mining Corp

### Consolidated Statements of Cash Flows

	Year ended September 30 2006	Year ended September 30 2005
<b>Cash flows from operating activities</b>		
Net loss	\$ (5,930,111)	\$ (673,477)
Adjustments for:		
Accretion of convertible debenture	116,895	-
Amortization	3,155,503	-
Stock based compensation	395,057	22,500
Mineral interests written off	-	555,812
Future income taxes	3,129,319	-
	866,663	(95,165)
Change in non-cash working capital items:		
Accounts receivable	(808,905)	(43,183)
Forward contracts	322,026	-
Accounts payable and accrued liabilities	2,866,070	(6,009)
Income taxes payable	677,607	-
Other current assets	(102,852)	-
	3,820,609	(144,357)
<b>Cash flows from investing activities</b>		
Acquisition of Donegal Resources Pty Ltd	(6,222,103)	-
Cash acquired on acquisition of Donegal Resources Pty Ltd.	1,528,078	-
Mineral interest exploration expenditures	(934,128)	(327,350)
Capitalized Lanfranchi mine expenditures	(550,372)	-
Proceeds on disposals of property, plant, and equipment	184,704	-
Purchases of property, plant and equipment	(142,552)	-
	(6,136,373)	(327,350)
<b>Cash flows from financing activities</b>		
Repayment of advances from director	-	(21,944)
Repayment of bank loan	(604,215)	-
Repayment of capital lease obligation	(118,194)	-
Net proceeds from issuance of share capital	15,734,075	742,517
	15,011,666	720,573
<b>Increase in cash</b>	<b>12,695,902</b>	<b>248,866</b>
Cash, beginning of year	307,285	58,419
<b>Cash, end of year</b>	<b>\$ 13,003,187</b>	<b>\$ 307,285</b>
<b>Supplemental cash flow information</b>		
Interest paid	\$ 126,056	\$ -

The non cash transactions described in notes 3, 11, and 12 have been excluded from the consolidated statement of cash flows.

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# Brilliant Mining Corp

## Notes to the Consolidated Financial Statements

September 30, 2006 and 2005

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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".

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

### 2. Significant accounting policies

#### Basis of presentation

These consolidated financial statements use the Canadian Dollar (\$) as the unit of measurement. Where foreign currency-denominated items are disclosed the Canadian Dollar equivalent amount, at the rate in effect on September 30, 2006, is presented.

#### 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 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.

#### Cash

Cash is comprised of cash deposits with financial institutions and in trust with legal counsel.

#### Derivatives and hedging

The Company does not have a formal hedging strategy and therefore does not apply hedge accounting.

Derivative financial instruments are reflected in the consolidated balance sheet at their net mark-to-market value, with adjustments to market value being recognized in net income in the period of the market value adjustment.

#### 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 following ranges of rates are applied:

Computer equipment	30%
Office furniture and equipment	7.5% - 37.5%
Buildings	4%
Motor vehicles	18% - 30%
Plant and equipment	7.5% - 15%

**September 30, 2006 and 2005**

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2. **Significant accounting policies, continued**

Mineral interests and mine properties

Direct costs relating to the acquisition, exploration and development of prospective mineral properties are capitalized on an area of interest and mineral basis. Such costs are capitalized until the respective properties are determined to be capable of sustained commercial production, or there has been an impairment in value. Upon commencement of commercial production, these costs on a property-by-property basis are amortized on the unit-of-production method, based on the proven economic reserves of the property. The carrying values of properties are subject to periodic review by management. When a property is determined to be non-commercial, non-productive, or its carrying value is not considered to be fully recoverable based on the net present value of future expected cash flows, or its value is otherwise impaired, those costs in excess of estimated future recoveries are charged to operations. The carrying values represent costs incurred to date less amounts written off or written down, and do not necessarily represent present or future values.

Joint ventures

The Company's interest in jointly controlled unincorporated ventures is accounted for using proportional consolidation whereby the consolidated entity takes up its proportion of the assets, liabilities, revenues, and expenses of the joint venture, after elimination of intercompany transactions.

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.

Asset retirement obligations

The Company recognizes liabilities for retirement obligations associated with long-lived assets, which includes abandonment of mineral properties and returning property to its original condition. The Company recognizes the fair value of the liability for an asset retirement obligation in the period in which it is incurred and records a corresponding increase in the carrying value of the related long-lived asset. The fair value of the liability is estimated using the present value of the estimated future cash outflows to abandon the asset at the Company's credit adjusted risk free interest rate. The liability is subsequently adjusted for the passage of time, and is recognized as an accretion expense in the statement of loss and deficit. The liability is also adjusted due to revisions in either the timing or the amount of the original estimated cash flows associated with the liability. The increase in the carrying value of the asset is amortized on the same basis as mineral properties.

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 rates during the period. Cumulative translation gains and losses relating to the self-sustaining operations are included as a component of shareholders' equity. The application of the current rate method results in the historical cost of assets and liabilities of the foreign subsidiaries being adjusted for changes in the exchange rate at reporting dates.

**September 30, 2006 and 2005**

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2. **Significant accounting policies, continued**

Future income taxes

The liability method is used for determining income taxes. Under this method, future income 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 year 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.

Earnings (loss) per common share

Basic earnings or loss per common share information, as applicable, is calculated on the basis of the weighted average number of common shares outstanding during the year and calculates earnings per share using the treasury stock method. This method recognizes the use of proceeds that could be obtained upon exercise of dilutive options and warrants to purchase common shares at the average market price during the period in computing diluted earnings per share.

Financial instruments

The Company's financial instruments consist of cash, accounts receivable, forward contracts, accounts payable and accrued liabilities, bank loan, capital lease obligations, convertible debenture, and note payable. The fair values of these financial instruments approximate their carrying value unless otherwise noted. Through its investment in Donegal, the Company is exposed to significant currency risks due to a significant proportion of the above-noted financial instruments being denominated in a foreign currency. The Company is not exposed to significant interest or credit risks on its financial instruments. The Company's note payable of \$832,000 is non-interest bearing. As a result the Company believes the fair value of this financial instrument to be less than its carrying value at September 30, 2006. Management has determined the fair value is undeterminable.

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 net of GST payable to the Australian taxation authority. 90% of the provisional invoice is payable one month after the end of the month of production. The remaining 10% is recognized upon presentation of the final invoice approximately three months after the month of production.

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

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the differences could be significant.

Significant estimates and assumptions include the expected future recoverability of mineral properties, amortization of mine properties, amortization of property, plant and equipment, future asset retirement obligations, realization of future tax assets and liabilities, as well as the risk-free rate and volatility amounts used in the calculation of stock-based compensation.

**September 30, 2006 and 2005**

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2. **Significant accounting policies, continued**

Stock based compensation

Stock options granted to consultants and directors and warrants issued to agents as compensation are accounted for using the fair value method. Under the fair value method, compensation expense related to stock options is recorded in the statement of 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 a share issue cost with a corresponding increase to contributed surplus.

Consideration received on the exercise of stock options and warrants is credited to share capital. Upon the exercise of 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 will not vest, but accounts for forfeitures as they occur.

Flow-through shares

The proceeds of flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada) ("Act") are included in share capital. The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly these expenditures provide no income tax deduction to the Company.

Share capital is reduced and a future tax liability is recorded equal to the amount of future income taxes payable by the Company when the renunciation of expenditures to the purchasers is effected by formal notification to the Canada Revenue Agency. Where at the time of renouncement the Company has unrecorded net tax assets exceeding the income tax effect of the deduction renounced, a corresponding future tax asset will be recognized. The amount of the future income tax assets recognized is limited to the amount that is more likely than not to be realized.

**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

**3. Business combination**

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

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

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**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

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**3. Business combination, continued**

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

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

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 on May 25, 2006, bears interest at 10% per annum, payable quarterly, and matures in three years. The principal amount outstanding is convertible at the option of the holder, in whole or in part, and from time to time, into common shares of the Company at a conversion price of \$1.00 on or before May 25, 2008 and \$1.10 on or before May 25, 2009. The Company has the option to prepay the Debenture, in whole or in part, upon thirty days' notice during which time the holder can elect to exercise its right of conversion. The convertible debenture has been presented on the consolidated balance sheet in its separate liability (\$4,116,895) and equity (\$1,000,000) components based on the ratio of estimated fair value of each component. Interest incurred on the equity component of the convertible debenture is accounted for as a reduction of retained earnings or deficit. Interest on the liability portion and the accretion of the liability component to its face value at maturity is classified as interest expense.

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

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

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

**4. Cash**

Cash consists of cash on hand and cash on demand deposit with accredited financial institutions in Canada and Australia. The Company has provided \$25,000 (2005 - \$25,000) of cash as security to the Company's financial institution for corporate credit card liabilities. In addition, cash includes a restricted amount of AU\$162,500 (\$134,713) held by one of the Company's financial institutions as a guarantee against a performance bond, held in the name of the original vendor of the Lanfranchi Nickel Mine, in order to guarantee future reclamation activities at the Lanfranchi site.

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

**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

**5. Forward contracts and nickel contracts**

The Company has acquired a series of forward contracts to exchange United States dollars ("US Dollars") for Australian dollars at fixed rates until June 2007. The total amount of US Dollars payable under the contracts as at September 30, 2006 is US\$7,661,950 (\$8,545,373), and the total amount of Australian dollars receivable under the contracts is AU\$10,124,852 (\$8,423,877). The forward contracts have been recognized at acquisition date at their mark-to-market value as of that date and are subsequently adjusted to market value at reporting dates. Gains and losses on the market adjustments to these contracts are reflected in net income in the period in which the change in value occurs. The asset and liability components of the forward contracts are shown net as they are settled simultaneously with the same counterparty.

The Company has also acquired a series of monthly nickel ore sales contracts, each at a fixed tonnage of nickel concentrate and a fixed US Dollar sales price. These derivatives are not recognized in the consolidated balance sheet. The aggregate quantity of nickel to be sold under the remaining contracts (up to August, 2007) is 734 tonnes at prices ranging from US\$12,100 to US\$13,350 per tonne.

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

**6. Mine property – Lanfranchi Joint Venture**

The Company has acquired a 25% interest in the Lanfranchi Joint Venture ("Lanfranchi JV") that includes the producing Lanfranchi Nickel Mine and a sublease over the Lanfranchi and associated Tramways tenements, consisting of 37 mineral leases over 50 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.

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

Acquisition (May 31, 2006)	\$ 21,181,096
Capitalized pre-production costs	42,139
Capitalized mine development costs	<u>504,518</u>
	21,727,753
Amortization	<u>(2,945,388)</u>
Balance, September 30, 2006	<u>\$ 18,782,365</u>

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 denotes the opening (acquisition date) balance of the ARO and its accretion in the year ended September 30, 2006. No new activities arose during the year requiring the Company to revise its estimate of the ARO.

**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

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**6. Mine property – Lanfranchi Joint Venture, continued**

	<u>AU\$</u>	<u>CA\$</u>
Asset retirement obligation, May 31, 2006	208,663	<b>173,608</b>
Accretion	<u>3,262</u>	<u><b>2,712</b></u>
Asset retirement obligation, September 30, 2006	211,925	<b>176,320</b>

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

	<u>AU\$</u>	<u>CA\$</u>
Payment due December 31, 2006	250,000	<b>208,000</b>
Payment due June 30, 2007	<u>375,000</u>	<u><b>312,000</b></u>
Current portion of note payable	625,000	<b>520,000</b>
Payment due December 31, 2007	<u>375,000</u>	<u><b>312,000</b></u>
Note Payable	<u>1,000,000</u>	<u><b>832,000</b></u>

In addition to the above, the original purchase agreement between Donegal and the original vendors of the Lanfranchi assets also requires a contingent payment to the original vendors of AU\$250,000 (\$208,000) within 60 days of delivering a cumulative 500,000 dry metric tonnes of nickel ore (the "Threshold Production") from the Lanfranchi Nickel Mine. In the event that management determines that the Threshold Production will be attained, the Company will account for the additional consideration as an increase to the acquisition cost of the Lanfranchi Nickel Mine and a resultant liability.

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

	<u>AU\$</u>	<u>CA\$</u>
October, 2006	900,000	<b>748,800</b>
December, 2006	900,000	<b>748,800</b>
March, 2007	<u>1,650,000</u>	<u><b>1,372,800</b></u>
	<u>3,450,000</u>	<u><b>2,870,400</b></u>

**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

**6. Mine property – Lanfranchi Joint Venture, continued**

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 Companies aggregate interest in such items is disclosed below:

Assets	
Current	
Cash	\$ 28,779
Accounts receivable	397,820
Other current assets	157,703
	<u>584,302</u>
Non-current	
Property, plant & equipment	2,101,495
Lanfranchi mine exploration and development	2,095,716
	<u>4,197,211</u>
Total assets	<u>4,781,513</u>
Liabilities	
Current	
Accounts payable	1,869,769
Capital lease obligations	295,175
	<u>2,164,944</u>
Non-current	
Capital lease obligations	1,217,666
Asset retirement obligation	176,320
	<u>1,393,986</u>
Total liabilities	<u>3,558,930</u>
Net assets	<u>\$ 1,222,583</u>
Revenues	\$ 4,351
Expenses	<u>(3,118,187)</u>
Net income	<u>\$ (3,113,836)</u>
Cash flows	
Cash outflows from operating activities	\$ (2,096,221)
Cash outflows from investing activities	(532,477)
Cash inflows from financing activities	<u>2,554,316</u>
Net decrease in cash from the joint venture	<u>\$ (74,382)</u>

**7. Segmented information**

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

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

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

**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

**8. Mineral interests**

	Ossok West (b) \$	Ossok East (b) \$	Michikamau (c) \$	Scoop (d) \$	Chesterfield (e) \$	Total \$
Balance, September 30, 2004	-	-	-	-	-	(a)
Additions during the period:						
Acquisition	-	-	23,000	-	-	<b>23,000</b>
Claims and land use	3,940	2,560	-	1,700	12,291	<b>20,491</b>
Refundable deposits	19,700	12,800	27,960	8,500	-	<b>68,960</b>
Airborne surveys	54,409	55,468	33,163	40,422	34,080	<b>217,542</b>
Geological consulting	4,098	3,798	5,798	3,131	17,219	<b>34,044</b>
Fieldwork	13,903	13,903	13,903	13,903	32,443	<b>88,055</b>
Balance, September 30, 2005	96,050	88,529	103,824	67,656	96,033	<b>452,092</b>
Additions during the period:						
Acquisition	-	-	15,155	-	1,207	<b>16,362</b>
Claims and land use	-	-	-	-	8,166	<b>8,166</b>
Refundable deposits	(16,225)	(12,775)	110,410	(8,475)	-	<b>72,935</b>
Airborne surveys	(2,384)	(1,816)	71,890	(1,540)	-	<b>66,150</b>
Geological consulting	11,485	5,185	156,329	4,603	6,858	<b>184,460</b>
Assaying	1,000	1,000	10,570	1,000	1,268	<b>14,838</b>
Fieldwork	27,255	445	545,547	445	(2,475)	<b>571,217</b>
Balance, September 30, 2006	117,181	80,568	1,013,725	63,689	111,057	<b>1,386,220</b>

*a) Medley River*

At September 30, 2004, the carrying amount of the Medley River property was \$555,034. During the year ended September 30, 2005, additions to the Medley River property were \$778 for geological consulting, and subsequently the property was written off as management had determined that the property lacked merit relative to other opportunities. These amounts are not reflected in the above table.

*b) Ossok West and Ossok East Property*

On February 22 and March 2, 2005, the Company staked and beneficially owns 100% of 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.

*c) Michikamau Property*

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 consists of:

- a) cash payment of \$27,960 representing a refundable deposit with the Newfoundland government; and
- b) 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 claims are 100% owned by the Company.

**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

**8. Mineral interests, continued**

*d) Scoop Property*

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

*e) Chesterfield Property*

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 must 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.

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.

**9. Property, plant and equipment**

	<b>2006</b>		
	<b>Cost</b>	<b>Accumulated amortization</b>	<b>Net</b>
<b>Canadian operations</b>			
Computer equipment	\$ 23,270	\$ 2,516	\$ 20,754
Office furniture and equipment	8,016	401	7,615
	<b>31,286</b>	<b>2,917</b>	<b>28,369</b>
<b>Australian Operations</b>			
Buildings	49,213	132	49,081
Motor vehicles	19,457	1,946	17,511
Office furniture and equipment	22,665	6,992	15,673
Plant and equipment	675,570	40,407	635,163
Plant and equipment under capital lease	1,619,297	133,631	1,485,666
	<b>2,386,202</b>	<b>183,108</b>	<b>2,203,094</b>
	<b>\$ 2,417,488</b>	<b>\$ 186,025</b>	<b>\$ 2,231,463</b>

In the year ended September 30, 2005, the Company did not have any property, plant, and equipment.

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**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

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10. **Capital lease obligations**

Through its interest in the Lanfranchi JV, the Company is party to a commensurate proportion of lease obligations, denominated in Australian Dollars, for equipment under lease, classified as capital leases, requiring the following minimum payments for each of the next four years:

	<u>AU\$</u>	<u>CA\$</u>
2007	600,468	<b>499,589</b>
2008	600,468	<b>499,589</b>
2009	710,172	<b>590,863</b>
2010	157,356	<b>130,920</b>
	<hr/>	<hr/>
	2,068,464	<b>1,720,961</b>
Less: imputed interest	<u>(250,142)</u>	<u><b>(208,120)</b></u>
	<hr/>	<hr/>
	1,818,322	<b>1,512,841</b>
Less: current portion	<u>(354,778)</u>	<u><b>(295,175)</b></u>
	<hr/>	<hr/>
Non-current portion	<u>1,463,544</u>	<u><b>1,217,666</b></u>

In the year ended September 30, 2005, the Company did not have any capital lease obligations.

**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

11. **Share capital**

a) **Authorized**

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

b) **Common shares issued**

	<b>Number</b>	<b>Amount</b>
<b>Balance September 30, 2004</b>	<b>6,654,997</b>	<b>\$ 964,048</b>
Issued in private placement - Jan 18, 2005	2,500,000	250,000
Issued in private placement – Jun 17, 2005	4,224,600	633,690
Issued for mineral properties (note 8)	200,000	23,000
Share issue costs	-	(181,157)
<b>Balance September 30, 2005</b>	<b>13,579,597</b>	<b>\$ 1,689,581</b>
Issued upon exercise of warrants	9,503,397	3,580,601
Issued upon exercise of options	25,000	4,000
Issued upon exercise of agent's warrants	783,110	254,004
Issued in private placement - Feb 15, 2006	1,100,000	506,000
Issued in private placement - Feb 17, 2006	6,400,000	2,065,000
Issued in private placement - May 25, 2006	12,902,750	10,322,200
Issued as commissions for private placements	708,865	266,759
Issued in business combination (note 3)	10,500,000	6,825,000
Adjustments to contributed surplus	-	365,524
Share issue costs	-	(2,084,931)
Exploration expenditures renounced to flow-through share purchasers	-	(108,360)
<b>Balance September 30, 2006</b>	<b>55,502,719</b>	<b>\$ 23,685,378</b>

On January 18, 2005 the Company closed a non-brokered private placement of 2,500,000 units at a price of \$0.10 per unit, for aggregate proceeds of \$250,000. Each unit consists of one common share and one share purchase warrant, which entitles the holder to acquire one additional common share at a price of \$0.20 per share within two years of issuance.

On June 17, 2005, the Company closed a brokered private placement of 4,000,000 units at a price of \$0.15 per unit, for aggregate proceeds of \$600,000. Of the units sold, 2,000,000 units consisted of one common share and one share purchase warrant. The remaining 2,000,000 units (flow-through units) consisted of one common share issued as a "flow-through share" and one-half of a share purchase warrant. Each whole warrant entitles the holder to acquire one additional common share for a period of two years from closing at an exercise price of \$0.25 per common share. The Company paid underwriters' commissions of \$16,290 in cash, an aggregate of 224,600 units consisting of one common share and one share purchase warrant at a deemed price of \$0.15 per unit, warrants to purchase 333,200 shares at a price of \$0.20 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.

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.

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 up to February 17, 2008. 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

**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

**11. Share capital, continued**

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. On August 24, 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 agents' warrants detailed below) will expire on September 25, 2006, if not exercised by that date. All but 37,709 of these warrants were exercised prior to the expiry date.

The Company paid underwriters' commissions of an aggregate of 600,666 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.

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.

On May 25, 2006, the Company issued 12,902,750 units, in exchange for subscription receipts, 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 \$739,217 in cash and 108,199 units at a deemed price of \$0.80 per unit. In addition, the agents received 1,290,275 compensation options each exercisable into one common share at a price of \$1.00 for two years from closing. An agent 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 were subject to a restricted period expiring on September 11, 2006.

**c) Warrants**

	<b>Number</b>	<b>Weighted average exercise price</b>
<b>Outstanding warrants, September 30, 2004</b>	<b>- \$</b>	<b>-</b>
Issued in private placement – Jan 18, 2005	2,500,000	0.20
Issued in private placement – Jun 17, 2005	3,224,600	0.25
Issued in private placement – Jun 17, 2005	333,200	0.20
Issued for mineral properties (note 8)	200,000	0.25
<b>Outstanding warrants, September 30, 2005</b>	<b>6,257,800</b>	<b>0.23</b>
Issued in private placement – Feb 15, 2006	1,100,000	0.71
Issued in private placement – Feb 17, 2006	2,900,000	0.45
Issued in private placement – Feb 17, 2006	4,612,666	0.40
Issued in private placement – May 25, 2006	7,795,749	1.04
Issued in business combination (note 3)	5,250,000	1.00
Warrants exercised	(10,286,507)	0.37
Warrants expired	(37,709)	0.40
<b>Outstanding warrants, September 30, 2006</b>	<b>17,591,999 \$</b>	<b>0.69</b>

**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

11. **Share capital, continued**

Exercise prices	Number outstanding	Weighted average remaining contractual life in years
\$ 0.20	1,505,000	0.30
0.25	200,000	0.30
0.20	37,000	0.70
0.25	1,837,500	0.70
0.71	966,750	1.40
1.05	6,505,474	1.60
1.00	1,290,275	1.60
1.00	5,250,000	2.60
\$ 0.37	17,591,999	1.80

During the period, the Company recorded non-cash share issuance costs of \$820,442 (2005 – \$39,984) relating to the 1,802,275 (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 weighted average assumptions used are as follows:

	2006	2005
Risk free interest rate	4.02%	2.99%
Expected hold period prior to exercise (years)	2	2
Expected volatility	94%	110%
Dividend yield per share	0%	0%

Subsequent to September 30, 2006, the Company issued 1,957,000 common shares upon the exercise of outstanding warrants for proceeds of \$413,900.

**d) Flow-through shares**

In June 2005, the Company issued flow-through shares for gross proceeds of \$300,000 to finance eligible Canadian Exploration Expenditures ("CEE"). The flow-through common shares provide for the company's CEE to be transferred to the shareholders and, as a result, these costs are not available to the Company. During the year ended September 30, 2006, the Company renounced \$300,000 in eligible expenditures to the 2005 flow-through share purchasers.

In February 2006, the Company issued flow-through shares for gross proceeds of \$1,015,000 which will be used to incur qualifying CEE expenditures. The Company is required to spend this amount by December 31, 2007.

**e) Earnings and loss per share**

For the year ended September 30, 2006, the basic weighted average number of common shares outstanding was 28,095,535 (2005 – 9,747,847). The exercise of options and warrants would be anti-dilutive for the years ended September 30, 2006 and 2005 as the Company was in a loss position.

**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

12. **Stock-based compensation**

Pursuant to the Company's stock option plan (the "Plan") for directors, officers, employees and consultants dated July 6, 2006, the Corporation 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 option. These options have no vesting period and may be exercised within five years from the date of grant or 90 days following the date the optionee ceases to be a director or officer of the Corporation by reason of death or 30 days for any reason other than death.

	<b>Number</b>	<b>Weighted average exercise price</b>
<b>Outstanding options, September 30, 2004</b>	<b>665,000</b>	<b>\$ 0.13</b>
Granted under the Plan	250,000	0.12
<b>Outstanding options, September 30, 2005</b>	<b>915,000</b>	<b>0.13</b>
Granted under the Plan	1,100,000	0.38
Granted outside the Plan	500,000	0.33
Exercised	(25,000)	0.16
Cancelled	(45,000)	0.13
<b>Outstanding options, September 30, 2006</b>	<b>2,445,000</b>	<b>\$ 0.28</b>
<b>Options exercisable, September 30, 2006</b>	<b>2,159,285</b>	<b>\$ 0.28</b>

<b>Exercise prices</b>	<b>Number outstanding</b>	<b>Weighted average remaining contractual life in years</b>
\$ 0.13	620,000	2.50
0.115	250,000	3.40
0.16	460,000	4.10
0.33	500,000	4.30
0.55	615,000	4.80
\$ 0.28	2,445,000	3.84

During the year ended September 30, 2006, the Company recorded stock-based compensation of \$395,057 (2005 – 22,500) relating to the 1,600,000 (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 previously recorded fair value of options are not subsequently adjusted for changes in the market price or volatility of the Company's shares, remaining life of the options, changes in the dividend rate or the risk-free interest rate. The weighted average assumptions used are as follows:

	<b>2006</b>	<b>2005</b>
Risk free interest rate	4.12%	3.38%
Expected hold period prior to exercise (years)	5	5
Expected volatility	98%	110%
Dividend yield per share	0%	0%

Subsequent to September 30, 2006, the Company issued 2,950,000 stock options to insiders of the Company. These stock options are exercisable for 2,950,000 common shares at an exercise price of \$0.80 per common share. The Company also issued 45,000 common shares due to the exercise of stock options for proceeds of \$6,150.

**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

**13. Contributed surplus**

	2006	2005
Opening balance	\$ 168,495	\$ 106,011
Fair value of warrants issued for Donegal acquisition (note 3)	1,312,500	-
Fair value of agents' warrants issued	820,442	39,984
Fair value of stock-based compensation	395,057	22,500
Adjustment for options exercised	(3,750)	-
Adjustment for agents' warrants exercised	(361,774)	-
	<b>\$ 2,330,970</b>	<b>\$ 168,495</b>

**14. Income taxes**

	2006	2005
<b>Reconciliation of accounting and taxable income</b>		
Net loss	\$ (5,930,111)	\$ (673,477)
Adjustments resulting from:		
Amortization	2,672,359	-
Stock-based compensation	395,057	22,500
Provision for future income tax	3,129,319	-
Provision for current income tax	682,759	-
Share issuance costs	(310,946)	(63,025)
Other	421,637	1,116
Mineral interests written off	-	555,812
	<b>\$ 1,060,074</b>	<b>\$ (157,074)</b>

The income tax provision has been calculated using a Canadian rate of 36.12% and an Australian rate of 30.00%

**The components of future income tax balances are as follows:**

	2006	2005
Accounts payable	\$ (113,390)	\$ -
Asset retirement obligation	(176,320)	-
Forward contracts	(127,073)	-
Inventories	115,123	-
Lanfranchi Mine	11,450,683	-
Mineral interests	(67,951)	(590,812)
Other assets	(149,020)	-
Other capital property	(697)	(697)
Property, plant, and equipment	(2,917)	-
Undeducted share issuance costs	(1,096,295)	(142,752)
Benefit of income tax losses not recognized	(1,677,000)	(643,000)
	<b>8,155,143</b>	<b>(1,377,261)</b>
Effective tax rate	<b>27.87%</b>	<b>35.12%</b>
	<b>2,272,438</b>	<b>(483,694)</b>
Valuation allowance	<b>1,027,563</b>	<b>483,694</b>
	<b>\$ 3,300,001</b>	<b>\$ -</b>
Future tax liability	<b>\$ 3,300,001</b>	<b>\$ -</b>

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**Brilliant Mining Corp**  
**Notes to the Consolidated Financial Statements**

**September 30, 2006 and 2005**

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**14. Income taxes, continued**

As at the last fiscal year ended September 30, 2006, the Company had non-capital income tax losses in Canada carried forward for tax purposes aggregating approximately \$1,677,000 which are available for the reduction of future years' taxable income. The losses expire as follows:

2007	\$ 83,000
2008	47,000
2009	92,000
2010	102,000
2014	62,000
2015	157,000
2026	1,134,000
	<hr/>
	\$ 1,677,000

**15. Related party transactions**

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

- a) Paid or accrued management fees to directors and officers of the Company or to companies controlled by directors and officers in the amount of \$137,305; (2005 - \$24,000) of which no amount was payable at September 30, 2006 (2005 - \$18,000).
- b) Paid or accrued geological consulting fees to directors and officers of the Company or to companies controlled by directors and officers in the amount of \$56,693; (2005 - \$22,000) which have been capitalized as mineral interest costs and were fully paid at September 30, 2006 and 2005.
- c) Accrued interest on the convertible debenture in the amount of \$176,712 (2005 – nil) and the principal amount of the convertible debenture of \$5,000,000 (2005 – nil) (note 6) was payable to directors of the Company at September 30, 2006.

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