

Brilliant Mining Corp.

Consolidated Financial Statements

For the years ended September 30, 2007 and 2006



STOUT & COMPANY LLP

CHARTERED ACCOUNTANTS EDMONTON, CANADA

AUDITORS' REPORT


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

We have audited the consolidated balance sheets of **Brilliant Mining Corp.** as at September 30, 2007 and 2006 and the consolidated statements of net loss and deficit, 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, 2007 and 2006, 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 14, 2008


Chartered Accountants

Brilliant Mining Corp.
Consolidated Balance Sheets

As at September 30	2007	2006
Assets		
Current		
Cash and cash equivalents (note 5)	\$ 8,966,872	\$ 12,843,474
Receivables	1,353,678	2,869,243
Forward contracts (note 6)	-	20,413
Other	466,826	320,615
	<u>10,787,376</u>	<u>16,053,745</u>
Restricted cash (note 5)	168,358	159,713
Mine property (note 7)	19,779,186	18,782,365
Mineral interests (note 9)	1,958,161	1,386,220
Property, plant, and equipment (note 8)	<u>2,750,569</u>	<u>2,231,463</u>
Total assets	<u>\$ 35,443,650</u>	<u>\$ 38,613,506</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 3,539,085	\$ 5,239,243
Bank loan (note 7)	-	2,870,400
Capital lease obligations (note 7)	452,168	295,175
Income tax payable	708,706	668,378
Note payable (note 7)	551,375	520,000
	<u>5,251,334</u>	<u>9,593,196</u>
Asset retirement obligation (note 7)	215,704	176,320
Capital lease obligations (note 7)	727,214	1,217,666
Convertible debenture (note 3)	4,452,891	4,116,895
Future income taxes (note 12)	1,433,254	3,300,001
Note payable (note 7)	-	312,000
	<u>12,080,397</u>	<u>18,716,078</u>
Total liabilities	<u>12,080,397</u>	<u>18,716,078</u>
Shareholders' equity	<u>23,363,253</u>	<u>19,897,428</u>
Total liabilities and shareholders' equity	<u>\$ 35,443,650</u>	<u>\$ 38,613,506</u>

Approved by the Board

Director (signed by) "John Williamson"

Director (signed by) "Sean Mager"

Brilliant Mining Corp.

Consolidated Statements of Net Loss and Deficit

Years ended September 30	2007	2006
Revenue		
Nickel ore sales	\$ 46,509,521	\$ 13,929,014
Interest	468,348	155,974
Other	111,146	47,675
	<u>47,089,015</u>	<u>14,132,663</u>
Expenses		
Amortization	5,803,854	3,155,503
Concentrator fees	1,650,519	498,943
General and administration	1,512,567	1,105,754
Interest on capital lease obligations	114,317	38,631
Interest and accretion on convertible debenture	737,092	257,169
Interest	298,275	87,425
Mining	6,364,594	2,336,611
Royalties	1,534,472	183,165
Smelting	16,412,468	4,880,222
Stock based compensation	2,178,689	395,057
	<u>36,606,847</u>	<u>12,938,480</u>
	10,482,168	1,194,183
Other income (expenses)		
Foreign exchange	150,474	(222,999)
Loss on forward contracts	-	(164,930)
Loss on nickel contracts	(21,517,008)	(2,924,287)
Mineral interests write-down	(255,313)	-
Other	(14,784)	-
	<u>(11,154,463)</u>	<u>(2,118,033)</u>
Net loss before income tax		
	(11,154,463)	(2,118,033)
Current income taxes	-	(682,759)
Future income taxes	2,189,303	(3,129,319)
	<u>(8,965,160)</u>	<u>(5,930,111)</u>
Net loss for the year		
	\$ (8,965,160)	\$ (5,930,111)
Basic and diluted net loss per common share (note 10)	\$ (0.15)	\$ (0.21)

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

	(In dollars, except # of common shares),	# of common shares	Share capital	Contributed Surplus	Convertible debenture—equity portion	Deficit	Foreign currency translation balance	Accumulated other comprehensive income	Total shareholders' equity
September 30, 2005		13,579,597	1,689,581	168,495	-	(1,165,218)	-	-	692,858
Net loss for the year		-	-	-	-	(5,930,111)	-	-	(5,930,111)
Acquisition of Donegal Resources Pty Ltd. (note 3)		10,500,000	6,825,000	1,312,500	1,000,000	-	-	-	9,137,500
Private placements		21,111,615	13,159,959	-	-	-	-	-	13,159,959
Stock options vested (note 11)		-	-	395,057	-	-	-	-	395,057
Exercise of warrants (note 10)		9,503,397	3,580,601	-	-	-	-	-	3,580,601
Exercise of agents' warrants (note 10)		783,110	615,778	(361,774)	-	-	-	-	254,004
Exercise of stock options		25,000	7,750	(3,750)	-	-	-	-	4,000
Foreign currency effect of translation of self-sustaining foreign subsidiary		-	-	-	-	-	11,477	-	11,477
Equity portion of interest on convertible debenture		-	-	-	-	(35,068)	-	-	(35,068)
Share issuance costs		-	(2,084,931)	820,442	-	-	-	-	(1,264,489)
Future income tax effect on renunciation of flow-through expenditures		-	(108,360)	-	-	-	-	-	(108,360)
September 30, 2006		55,502,719	23,685,378	2,330,970	1,000,000	(7,130,397)	11,477	-	19,897,428
Transition adjustments to reclassify foreign currency translation balance to AOCI (note 1)		-	-	-	-	-	(11,477)	11,477	-
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		-	-	-	-	(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		-	-	-	-	(8,965,160)	-	414,108	(8,551,052)
Stock options vested (note 11)		-	-	2,178,689	-	-	-	-	2,178,689
Exercise of warrants (note 10)		11,704,355	10,385,528	(1,312,500)	-	-	-	-	9,073,028
Exercise of agents' warrants (note 10)		1,006,791	1,340,454	(363,263)	-	-	-	-	977,191
Exercise of stock options (note 11)		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)
September 30, 2007		68,766,865	35,466,953	2,666,546	1,000,000	(16,195,831)	-	425,585	23,363,253

Brilliant Mining Corp.

Consolidated Statements of Cash Flows

Year ended September 30	2007	2006
Cash flows used in operating activities		
Net loss for the year	\$ (8,965,160)	\$ (5,930,111)
Adjustments for:		
Accretion expense	375,380	116,895
Amortization	5,803,854	3,155,503
Future income taxes	(2,189,303)	3,129,319
Mineral interests write-down	255,313	-
Stock based compensation	2,178,689	395,057
	<u>(2,541,227)</u>	<u>866,663</u>
Foreign currency translation	414,108	11,477
Changes in working capital:		
Accounts receivable	1,515,565	(808,905)
Forward contracts	20,413	322,026
Accounts payable and accrued liabilities	(1,700,158)	2,901,138
Income taxes payable	40,328	677,607
Other current assets	(152,352)	(114,329)
	<u>(2,403,323)</u>	<u>3,855,677</u>
Cash flows used in investing activities		
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	(827,254)	(934,128)
Capitalized Lanfranchi mine expenditures	(5,649,185)	(550,372)
Proceeds on disposal of property, plant, and equipment	-	184,704
Purchases of property, plant, and equipment	(1,450,046)	(142,552)
	<u>(7,926,485)</u>	<u>(6,136,373)</u>
Cash flows from financing activities		
Interest on equity portion of convertible debenture	(100,274)	(35,068)
Repayment of bank loan	(2,870,400)	(604,215)
Repayment of capital lease obligations	(333,459)	(118,194)
Repayment of note payable	(501,175)	-
Net proceeds from issuance of share capital	10,267,159	15,734,075
	<u>6,461,851</u>	<u>14,976,598</u>
Net increase (decrease) in cash	(3,867,957)	12,695,902
Cash, beginning of year	<u>13,003,187</u>	<u>307,285</u>
Cash, end of year (note 5)	<u>\$ 9,135,230</u>	<u>\$ 13,003,187</u>
Cash is composed of:		
Cash and cash equivalents	\$ 8,966,872	\$ 12,843,474
Restricted cash	<u>168,358</u>	<u>159,713</u>
	<u>\$ 9,135,230</u>	<u>\$ 13,003,187</u>

The non-cash transactions described in notes 3, 7, 10, and 11 have been excluded from the consolidated statements of cash flows.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2007 and 2006

1. Nature of operations

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

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

2. Significant accounting policies

Principles of consolidation and preparation of financial statements

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

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 for the year ended September 30, 2006 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.

The consolidated financial statements use the Canadian Dollar as the unit of measurement. Where foreign currency-denominated balance sheet items or commitments are disclosed, the Canadian Dollar equivalent amount is presented, at the rate in effect at the related balance sheet date, unless otherwise indicated.

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.

New accounting standards and policies

Effective October 1, 2006, the Company prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook sections: 1530, *Comprehensive income*; 1651, *Foreign currency translation*; 3051, *Investments*; 3251, *Equity*; Section 3855, *Financial instruments – Recognition and Measurement*; Section 3861, *Financial instruments – Presentation and disclosure*; and 3865, *Hedges*. Except as described elsewhere, there were no effects on the Company’s financial statements from the adoption of these new standards.

Comprehensive income and equity

On October 1, 2006, the Company prospectively adopted CICA Handbook Section 1530, *Comprehensive Income* and 3251, *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. The

Brilliant Mining Corp.

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For the years ended September 30, 2007 and 2006

Company's OCI consists of unrealized gains or losses due to fluctuations in foreign currency exchange rates in its net investment in a self-sustaining foreign subsidiary. 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 new category of shareholders' equity in the consolidated statements of changes in shareholders' equity.

Adoption of this new accounting policy resulted in a reclassification of the Company's prior year-end foreign currency translation balance to AOCI. This adjustment had no effect on net assets or net loss.

Financial instruments

On October 1, 2006, the Company prospectively adopted CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. These new standards establish that all arms-length financial assets and financial liabilities must be 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:

Financial instrument classification	As classified by the Company	Subsequent measurement of gains or losses at each reporting period end
<ul style="list-style-type: none">• Assets or liabilities held-for-trading	<ul style="list-style-type: none">• Cash and cash equivalents• Forward contracts	Fair value; unrealized gains and losses recognized in net income
<ul style="list-style-type: none">• Loans and receivables	<ul style="list-style-type: none">• Receivables	Amortized cost using the effective interest rate method; if asset is derecognized or impaired, recognized in net income
<ul style="list-style-type: none">• Other financial liabilities	<ul style="list-style-type: none">• Accounts payable and accrued liabilities• Capital lease obligations• Note payable• Convertible debenture	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 was, at October 1, 2006, party to financial derivative instruments, forward foreign currency exchange contracts ("forward contracts"). The forward contracts were originally recognized and subsequently measured at fair value. The Company has not designated the forward contracts as being part of a hedging relationship, and they were therefore classified as held-for-trading. At September 30, 2007, the forward contracts previously recognized are settled in full. As of September 30, 2007, the Company is not party to any other derivative instruments or other off-balance sheet instruments.

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.

Brilliant Mining Corp.

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Hedges

On October 1, 2006, the Company prospectively adopted CICA Handbook Section 3865, *Hedges*. This new standard establishes when and how hedge accounting may be applied, as well as certain disclosure requirements. The standard specifies three types of hedging relationships: fair value hedges, cash flow hedges, and hedges of a net investment in self-sustaining foreign operations. Application of hedge accounting is optional. The Company has not designated any items for which to apply hedge accounting.

Foreign currency translation

On October 1, 2006, The Company has prospectively adopted the amended CICA Handbook Section 1651, *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 year end. 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 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. The effect of the application of this new standard is described in the section entitled "Comprehensive income and equity".

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 tax asset recognized is limited to the amount that is more likely than not to be realized.

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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 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.

Inventory

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

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. The fair value of shares, warrants, and options issued as consideration in the business combination disclosed in note 3 have been based on management's estimate of the market value of the Company's shares. 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.

Brilliant Mining Corp.

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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 conveyancing 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.

Net loss per common share

Basic net loss per common share is computed by dividing the net 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 %
Motor vehicles	18 % - 30 %
Plant and equipment	7.5 % - 15 %
Plant and equipment under capital lease	7.5 % - 15 %

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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 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.

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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:

Net assets acquired:	
Cash	\$ 1,528,078
Receivables	2,005,661
Forward contracts	341,204
Other current assets	211,468
Property, plant, and equipment	2,474,851
Mine property	21,156,612
Accounts payable and accrued liabilities	(2,216,147)
Asset retirement obligation	(172,982)
Bank loan	(3,462,086)
Current tax liability	(52,902)
Capital lease obligations	(1,625,154)
Note payable	(829,000)
	<hr/>
	\$ 19,359,603
Consideration given:	
Cash	\$ 5,000,000
Fair value of 10,500,000 common shares issued (\$0.65 per common share)	6,825,000
Fair value of 5,250,000 warrants issued (\$0.25 per warrant)	1,312,500
Convertible debenture	5,000,000
	<hr/>
	18,137,500
Break fee	150,000
Due diligence and acquisition costs	1,072,103
	<hr/>
	\$ 19,359,603

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 each 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 on May 25, 2006, 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 \$0.65; exercise price \$1.25; risk-free interest rate 4.04%; expected life 3 years; expected volatility 80%; and dividend yield per share 0%.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2007 and 2006

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 (\$4,452,891, 2006 - \$4,116,895) and equity (\$1,000,000, 2006 - \$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. 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 8 in a manner consistent with the requirements for segmented information.

The following table allocates assets by segment:

As at September 30	2007	2006
Canada	\$ 10,013,410	\$ 10,501,750
Australia	<u>25,430,240</u>	<u>28,111,756</u>
Total assets	<u>\$ 35,443,650</u>	<u>\$ 38,613,506</u>

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2007 and 2006

The following tables allocate revenues and net loss by segment:

Year ended September 30	2007	2006
Canada	\$ 360,186	\$ 133,789
Australia	<u>46,728,829</u>	<u>13,998,874</u>
Total revenues	<u>\$ 47,089,015</u>	<u>\$ 14,132,663</u>
Year ended September 30	2007	2006
Canada	\$ (3,628,385)	\$ (1,201,516)
Australia	<u>(5,336,775)</u>	<u>(4,728,595)</u>
Net loss	<u>\$ (8,965,160)</u>	<u>\$ (5,930,111)</u>

5. 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 (2006 - \$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 AUD 162,500 (\$143,358) (2006 - AUD 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. These items, totaling \$168,358, have been classified as a non-current asset due to the restrictions above. The prior year's restricted amount of \$159,713 has been reclassified to match the current year's presentation.

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.

6. Forward contracts and nickel contracts

With the acquisition of Donegal (note 3), the Company acquired a series of monthly forward contracts to exchange United States Dollars ("US Dollars") for Australian Dollars at fixed rates until June 2007. The forward contracts were initially recognized and subsequently measured at fair value. Gains and losses due to changes in fair value of the forward contracts were recognized in net income as a component of foreign exchange gains and losses. The asset and liability component of the contracts were presented net on the consolidated balance sheet at September 30, 2006. At September 30, 2007, all of the forward contracts have been settled. At September 30, 2006, the total amount of US Dollars payable under the contracts was US\$7,661,950 (\$8,545,373), and the total amount of Australian dollars receivable under the contracts was AUD 10,124,852 (\$8,423,877).

In the acquisition of Donegal, the Company also acquired a series of monthly nickel ore sales contracts ("nickel contracts"), each at a fixed tonnage of nickel concentrate and a fixed US Dollar sales price. Gains and losses on the nickel contracts are taken up in net income in the period of settlement and classified as gains and losses on nickel contracts. These derivative contracts were not recognized on the consolidated balance sheet. As of September 30, 2007, all of the nickel contracts acquired with Donegal have been settled. As of September 30, 2006, the aggregate quantity of nickel to be sold under the remaining contracts was 734 tonnes at prices ranging from US\$12,100 to US\$13,350 per tonne.

All of the forward contracts and nickel contracts to which Donegal was party on the date that Brilliant acquired Donegal were originally entered into as a condition of acquiring bank debt financing for its purchase of the 25% interest in the Lanfranchi Nickel mine (note 7).

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2007 and 2006

7. Mine property – Lanfranchi Joint Venture

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

Lanfranchi mine

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, 2007 and September 30, 2006):

Acquisition	\$	21,181,096
Capitalized pre-production costs		42,139
Capitalized mine development costs		<u>504,518</u>
		21,727,753
Period amortization		<u>(2,945,388)</u>
Balance, September 30, 2006		18,782,365
Contingent acquisition cost		220,550
Exploration and evaluation		682,599
Capitalized pre-production costs		3,813,058
Capitalized mine development costs		836,203
Other capitalized costs		19,291
Effect of foreign currency translation		298,034
Period amortization		<u>(4,872,914)</u>
Balance, September 30, 2007	\$	<u>19,779,186</u>

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 denotes the opening (acquisition date) balance of the ARO and its accretion in the years ended September 30, 2007 and 2006. No new activities arose during the year requiring the Company to revise its estimate of the ARO.

	2007	2006
Asset retirement obligation, beginning of year	\$ 176,320	\$ 173,608
Accretion	<u>39,384</u>	<u>2,712</u>
Asset retirement obligation, end of year	<u>\$ 215,704</u>	<u>\$ 176,320</u>

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

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Note payable

Through acquiring Donegal, the Company assumed an outstanding non-interest bearing note payable on the original purchase of the Lanfranchi Mine and Tramways tenements of AUD 1,000,000 (\$882,200), representing 25% of the total outstanding consideration to be paid, payable to the original vendor from which Donegal and its joint venture partner purchased the assets. 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 has determined that the Threshold Production will be reached during the 2008 fiscal year. As such, the contingent consideration has been recognized in the Company's consolidated financial statements.

The schedule of payments of the remaining note payable at September 30, 2007 and 2006 is as follows:

	2007	2006
Payment due December 31, 2006	\$ -	\$ 208,000
Payment due June 30, 2007		312,000
Payment due December 31, 2007	330,825	312,000
Contingent payment due within 60 days of achieving Threshold Production	220,550	-
	<u>\$ 551,375</u>	<u>\$ 832,000</u>

Bank loan

The Company also assumed a bank loan with the Commonwealth Bank of Australia in the amount of AUD 4,050,000 (\$3,572,910) from Donegal's purchase of the Lanfranchi Mine property. The loan was 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 bore interest at the Australian Bank Bill Standard Yield plus 2.5% payable monthly. As of September 30, 2007, this loan has been retired in full.

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

As at September 30	2007	2006
Current assets	\$ 607,677	\$ 584,302
Non-current assets	<u>8,878,725</u>	<u>4,197,211</u>
	<u>9,486,402</u>	<u>4,781,513</u>
Current liabilities	2,460,932	2,164,944
Non-current liabilities	<u>965,927</u>	<u>1,393,986</u>
	<u>\$ 3,426,859</u>	<u>\$ 3,558,930</u>

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2007 and 2006

Condensed income statements

Periods ended September 30	2007	2006
Revenue	\$ 34,605	\$ 4,351
Expenses	<u>(8,737,091)</u>	<u>(3,118,187)</u>
Net loss for the period	<u>\$ 8,702,486</u>	<u>\$ (3,113,836)</u>

Condensed statements of cash flows

Periods ended September 30	2007	2006
Cash flows used in:		
Operating activities, net	\$ (6,292,007)	\$ (2,096,221)
Investing activities, net	(6,729,119)	(532,477)
Financing activities, net	<u>13,074,232</u>	<u>2,554,316</u>
Net cash flows	<u>\$ 53,106</u>	<u>\$ (74,382)</u>

Capital lease obligations

The Lanfranchi Nickel Mine employs the use of equipment financed by capital leases. As a result the Company is party to a commensurate portion of the related capital lease obligations. 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:

	2007	2006
2007	\$ -	\$ 499,589
2008	527,386	499,589
2009	626,460	590,863
2010	<u>139,040</u>	<u>130,920</u>
	1,292,886	1,720,961
Less: interest	<u>(113,504)</u>	<u>(208,120)</u>
Total capital lease obligation	1,179,382	1,512,841
Less: non-current portion of capital lease obligations	<u>(727,214)</u>	<u>(1,217,666)</u>
Current portion of capital lease obligations	<u>\$ 452,168</u>	<u>\$ 295,175</u>

The leases are secured by the plant and equipment under capital lease as disclosed in note 8.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2007 and 2006

8. Property, plant, and equipment**As at September 30, 2007**

	Cost	Accumulated Amortization	Net
Canadian operations			
Computer equipment	\$ 23,270	\$ 8,741	\$ 14,529
Office furniture and equipment	8,016	1,924	6,092
	31,286	10,665	20,621
Australian operations			
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
	3,789,400	1,059,452	2,729,948
	\$ 3,820,686	\$ 1,070,117	\$ 2,750,569

As at September 30, 2006

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

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2007 and 2006

9. Mineral interests

Additions (In dollars)	Ossok West	Ossok East	Michikamau	Scoop	Chesterfield	Total
Balance, September 30, 2005	96,050	88,529	103,824	67,656	96,033	452,092
Acquisition cost	-	-	15,155	-	1,207	16,362
Claims and land use	-	-	-	-	8,166	8,166
Refundable deposits	(16,225)	(12,775)	110,410	(8,475)	-	72,935
Airborne surveys	(2,384)	(1,816)	71,890	(1,540)	-	66,150
Geological consulting	11,485	5,185	156,329	4,603	6,858	184,460
Assaying	1,000	1,000	10,570	1,000	1,268	14,838
Fieldwork	27,255	445	545,547	445	(2,475)	571,217
Balance, September 30, 2006	117,181	80,568	1,013,725	63,689	111,057	1,386,220
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	-	744,191	-	-	756,471
Write down	-	(80,568)	-	(63,689)	(111,057)	(255,314)
Balance, September 30, 2007	130,661	-	1,827,500	-	-	1,958,161

Balances (In dollars)	Ossok West	Michikamau	Total
Acquisition cost	-	38,155	38,155
Claims, land use and refundable deposits	7,415	167,670	175,085
Exploration	123,246	1,621,675	1,744,921
	130,661	1,827,500	1,958,161

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.

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.

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During the year ended September 30, 2006, the Company staked additional claims at the Michikamau property, which are 100% owned by the Company. Subsequent to September 30, 2007, 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 does not anticipate a write-down of 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 \$80,568, 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 has been written down 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.

Although the original agreement is still in effect as of September 30, 2007, 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. This write-down resulted in a charge to net income of \$111,057, classified as mineral interest write-down.

10. Share capital

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

The following describes the material share issuances in the comparative and current years as reconciled in the consolidated statements of changes in shareholders' equity:

Private placements

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.

Brilliant Mining Corp.

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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 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 agent 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, on February 17, 2008, 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.

Per share calculations

The exercise of dilutive securities would be anti-dilutive for the years ended September 30, 2007 and 2006 as the Company was in a net loss position. For the year ended September 30, 2007, the basic weighted average number of shares was 61,404,614 (2006 – 28,095,535).

Flow through shares

In February 2006, the Company issued flow-through shares for gross proceeds of \$1,015,000 required to be incurred on qualifying Canadian exploration expenditures. The Company renounced the full amount to flow through share purchasers at December 31, 2006 and spent the full amount by December 31, 2007.

Brilliant Mining Corp.

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Warrants

A summary of share purchase warrant activity is as follows:

	Number of warrants (#)	Weighted average exercise price (\$)
Outstanding warrants, September 30, 2005	6,257,800	0.23
Issued in business combination (note 3)	5,250,000	1.00
Issued in private placements	16,408,415	0.73
Exercised	(10,286,507)	0.37
Expired	<u>(37,709)</u>	0.40
Outstanding warrants, September 30, 2006	17,591,999	0.84
Exercised	<u>(12,711,146)</u>	0.79
Outstanding warrants, September 30, 2007	<u>4,880,853</u>	0.99

A summary of the warrants outstanding at September 30, 2007 is as follows:

Exercise price (\$)	Number of warrants (#)	Remaining contractual life (years)
0.71	835,000	0.4
1.00	320,484	0.6
1.05	3,725,369	0.6
<u>0.99</u>	<u>4,880,853</u>	<u>0.6</u>

In the year ended September 30, 2006, the Company recorded non-cash share issuance costs of \$820,442 (2007 – nil) relating to 1,802,275 (2007 – nil) agents' warrants granted. The cost was recorded as a decrease in share capital and an increase to contributed surplus. The compensation amount was determined based on the fair value of the warrants and the following assumptions at the grant date: risk free interest rate 4.02%; expected life 2 years; expected volatility 94%; expected dividend yield 0%.

11. 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 and on the fifth anniversary of the date the option was granted.

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A summary of stock option activity is as follows:

	Number of options (#)	Weighted average exercise price (\$)
Outstanding options, September 30, 2005	915,000	0.13
Granted under the Plan	1,100,000	0.38
Granted outside the Plan	500,000	0.33
Exercised	(25,000)	0.16
Cancelled	<u>(45,000)</u>	0.13
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	<u>5,642,000</u>	0.72

A summary of options issued is as follows:

	Number of options issued (#)	Weighted average exercise price (\$)	Weighted average fair value (\$)
Year ended September 30, 2006			
Exercise price above market price at grant date	-	-	-
Exercise price equal to market price at grant date	1,600,000	0.36	0.30
Exercise price below market price at grant date	<u>-</u>	-	-
	<u>1,600,000</u>	0.36	0.25
Year ended September 30, 2007			
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

Brilliant Mining Corp.

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For the years ended September 30, 2007 and 2006

A summary of the options outstanding at September 30, 2007 is as follows:

Exercise price (\$)	Number of options (#)	Remaining contractual life (years)
0.13	552,000	1.5
0.115	160,000	2.4
0.16	410,000	3.1
0.33	500,000	3.3
0.55	270,000	3.8
0.80	2,950,000	4.0
1.50	750,000	4.5
2.5	50,000	4.6
0.72	5,642,000	3.6

During the year ended September 30, 2007, the Company recognized stock based compensation related to stock options issued and vesting in the year totaling \$2,178,689 (2006 - \$395,057).

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%.

During the year ended September 30, 2006, the Company recorded stock-based compensation of \$395,057 relating to the 1,600,000 options granted in the year. The weighted average fair value of options issued in the year of \$0.30 was estimated using the Black Scholes option pricing model using the following weighted average assumptions: risk-free interest rate 4.12%; expected volatility 98%; and expected annual dividends of 0%.

12. Income taxes

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

	2007	2006
Mine property	\$ 3,222,896	\$ 3,435,205
Mineral interests	224,814	(24,544)
Property, plant, and equipment	(7,383)	(1,054)
Undeducted share issue costs	(264,474)	(395,982)
Other	(61,247)	(135,455)
Income tax losses carried forward	(2,619,689)	(605,732)
	494,917	2,272,438
Valuation allowance	938,337	1,027,563
Future income tax liability	\$ 1,433,254	\$ 3,300,001

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2007 and 2006

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 32.18% (2006 – 33.79%) to the loss before income taxes for the years as follows:

	2007	2006
Expected tax recovery	\$ (3,589,429)	\$ (715,738)
Difference resulting from:		
Stock based compensation	786,942	142,695
Share issue costs	(101,419)	456,733
Mine costs	630,336	3,354,052
Foreign exchange	116,669	16,694
Mineral interests write-down	92,219	-
Other	69,121	-
Change in tax rates	(104,516)	13,773
Change in valuation allowance	(89,226)	543,869
Income tax expense (benefit)	(2,189,303)	3,812,078
Less: future income tax expense (benefit)	(2,189,303)	3,129,319
Current income tax expense	\$ -	\$ 682,759

The Company has not recognized the benefit of Canadian non-capital tax losses carried forward. These losses expire as follows:

2008	\$ 46,571
2009	91,704
2010	102,527
2014	61,797
2015	157,074
2026	1,097,591
2027	1,329,927
	<u>\$ 2,887,191</u>

13. Related party transactions

During the year, the Company incurred consulting expenses included in general and administrative expenses of \$213,708 (2006 - \$137,305) and capitalized geological consulting services of \$7,125 (2006 - \$56,693) related to management and technical services provided by directors or companies controlled by directors. All amounts were fully paid at September 30, 2007 and 2006.

The Company was charged interest of \$500,000 (2006 - \$176,712) on the convertible debenture (note 3) payable to companies associated with directors of the Company. Of this amount, \$399,726 (2006 - \$141,644) was included as a component of convertible debenture interest expense, and \$100,274 (2006 - \$35,068) was accounted for as a reduction of shareholders' equity. At September 30, 2007, \$51,672 (2006 - \$176,712) of this interest was payable to these companies in addition to the principal amount of \$5,000,000 (2006 - \$5,000,000).

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.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

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14. Financial instruments

Fair value

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

The fair value of the convertible debenture liability portion approximates its carrying value.

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.

Interest risk

The Company's capital lease obligations and the convertible debenture are fixed-interest bearing liabilities and are therefore subject to interest price risk. The note payable is non-interest bearing and therefore no interest price risk is deemed to exist in relation to the note. The Company's cash held on deposit is subject to interest rate cash flow risk to the extent that such cash earns interest at variable rates.

Credit risk

The Company has assessed its exposure to credit risk and has determined that such risk is minimal. 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. As such, the Company has determined that no significant risks exist from this concentration of credit.

Liquidity risk

The Company is not exposed to any significant liquidity risks.

15. Comparative figures

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