

Brilliant Mining Corp.

Consolidated Financial Statements

For the years ended September 30, 2010 and 2009



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, 2010 and 2009 and the consolidated statements of net income (loss), changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2010 and 2009, 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 22, 2011

Chartered Accountants

Brilliant Mining Corp.
Consolidated Balance Sheets

As at September 30

| | 2010 | 2009 |
|---|----------------------|----------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents (note 5) | \$ 4,250,705 | \$ 4,298,180 |
| Proceeds receivable on sale of Donegal (note 3) | 248,325 | 482,445 |
| Other receivables | 112,591 | 99,210 |
| Prepaid expenses and deposits | <u>61,450</u> | <u>56,525</u> |
| | 4,673,071 | 4,936,360 |
| Restricted cash (note 5) | 25,000 | 25,000 |
| Investments (note 11) | 5,626,589 | 4,450,331 |
| Mineral interests (note 6) | 1,891,245 | 1,876,920 |
| Property, plant, and equipment (note 7) | <u>93,051</u> | <u>98,358</u> |
| Total assets | <u>\$ 12,308,956</u> | <u>\$ 11,386,969</u> |
| Liabilities | | |
| Current | | |
| Accounts payable and accrued liabilities | \$ 94,748 | \$ 200,702 |
| Shareholders' equity | <u>12,214,208</u> | <u>11,186,267</u> |
| Total liabilities and shareholders' equity | <u>\$ 12,308,956</u> | <u>\$ 11,386,969</u> |

Approved by the Board

Director (signed by) "*John Williamson*"

Director (signed by) "*Sean Mager*"

Brilliant Mining Corp.

Consolidated Statements of Net Income (Loss)

| Years ended September 30 | 2010 | 2009 |
|---|------------------|-------------------|
| Revenue | | |
| Interest | \$ 28,562 | \$ 21,340 |
| Other | 14,893 | 6,942 |
| | <u>43,455</u> | <u>28,282</u> |
| Expenses | | |
| Amortization | 12,439 | 11,311 |
| General and administrative | 917,908 | 1,283,075 |
| Interest | - | 12,465 |
| Stock based compensation (note 8) | - | 288,139 |
| | <u>930,347</u> | <u>1,594,990</u> |
| | (886,892) | (1,566,708) |
| Other income (expenses) | | |
| Foreign exchange | 20,728 | 23,319 |
| Realized gain on disposition of held for trading financial assets (notes 3, 11) | - | 13,075,136 |
| Provision for receivable (notes 3 and 11) | (264,526) | - |
| Loss on disposal of property, plant and equipment | (2,738) | - |
| Unrealized gain on held for trading financial assets (notes 3 and 11) | 393,570 | 3,395,158 |
| Mineral interests written off (note 6) | - | (222,222) |
| | <u>(739,858)</u> | <u>14,704,683</u> |
| Net income (loss) from continuing operations before income taxes | (739,858) | 14,704,683 |
| Future income taxes (note 9) | 97,838 | (2,820,288) |
| | <u>(642,020)</u> | <u>11,884,395</u> |
| Net income (loss) from continuing operations | (642,020) | 11,884,395 |
| Discontinued operations (note 3) | - | (8,949,746) |
| | <u>(642,020)</u> | <u>2,934,649</u> |
| Net income (loss) for the year | \$ (642,020) | \$ 2,934,649 |
| Basic net income (loss) from continuing operations per common share | \$ (0.01) | \$ 0.33 |
| Diluted net income (loss) from continuing operations per common share | \$ (0.01) | \$ 0.32 |
| Basic net income (loss) per common share | \$ (0.01) | \$ 0.08 |
| Diluted net income (loss) per common share | \$ (0.01) | \$ 0.08 |

Brilliant Mining Corp.

Consolidated Statements of Changes in Shareholders' Equity

(In dollars, except number of common shares)

| | Number of common shares | Share capital | Contributed surplus | Deficit | Accumulated other comprehensive income (loss) | Total shareholders' equity |
|---|----------------------------|---------------|------------------------|--------------|--|----------------------------------|
| September 30, 2008 | 36,489,233 | 39,600,399 | 4,522,823 | (13,421,448) | (1,177,509) | 29,524,265 |
| Net income for the year ended September 30, 2009 | - | - | - | 2,934,649 | - | 2,934,649 |
| Other comprehensive loss: | | | | | | |
| Effect of exchange rate fluctuation on translation of net assets of self sustaining foreign operations | - | - | - | - | (7,774) | (7,774) |
| Reclassification of accumulated foreign exchange on disposition of self-sustaining foreign subsidiary | - | - | - | - | 29,132 | 29,132 |
| Unrealized loss on available for sale financial assets net of \$31,593 in future income taxes | - | - | - | - | (221,150) | (221,150) |
| Comprehensive income | | | | | | 2,734,857 |
| Stock based compensation | - | - | 288,139 | - | - | 288,139 |
| Exercise of stock options | 117,500 | 66,550 | (31,651) | - | - | 34,899 |
| Reversal of share issuance costs | - | 4,579 | - | - | - | 4,579 |
| Return of stated capital | - | (21,400,472) | - | - | - | (21,400,472) |
| | 117,500 | (21,329,343) | 256,488 | 2,934,649 | (199,792) | (18,337,998) |
| September 30, 2009 | 36,606,733 | 18,271,056 | 4,779,311 | (10,486,799) | (1,377,301) | 11,186,267 |
| Net loss for the year ended September 30, 2010 | - | - | - | (642,020) | - | (642,020) |
| Other comprehensive income: | | | | | | |
| Effect of change in fair value of available-for-sale investments (net of \$97,838 in future income taxes) | - | - | - | - | 684,850 | 684,850 |
| Comprehensive income | | | | | | 42,830 |
| Exercise of stock options | 125,000 | 143,249 | (120,500) | - | - | 22,749 |
| Private placement (note 8) | 6,666,666 | 1,000,000 | - | - | - | 1,000,000 |
| Share issuance costs | - | (48,638) | 11,000 | - | - | (37,638) |
| | 6,791,666 | 1,094,611 | (109,500) | (642,020) | 684,850 | 1,027,941 |
| September 30, 2010 | 43,398,399 | 19,365,667 | 4,669,811 | (11,128,819) | (692,451) | 12,214,208 |

Brilliant Mining Corp.

Consolidated Statements of Cash Flows

| Years ended September 30 | 2010 | 2009 |
|---|---------------------|---------------------|
| Operating activities | | |
| Net income (loss) from continuing operations | \$ (642,020) | \$ 11,884,395 |
| Adjustments for: | | |
| Amortization | 12,439 | 11,311 |
| Stock based compensation (note 8) | - | 288,139 |
| Mineral interests written off | - | 222,222 |
| Realized gain on disposition of held for trading financial assets (notes 3, 8,11) | - | (13,075,136) |
| Unrealized gain on held for trading financial assets (notes 3, 11) | (393,570) | (3,395,158) |
| Loss on disposal of property, plant and equipment | 2,738 | - |
| Provision for receivable | 264,526 | - |
| Future income taxes | (97,838) | 2,820,288 |
| | <u>(853,725)</u> | <u>(1,243,939)</u> |
| Changes in non-cash working capital: | | |
| Receivables | (43,659) | 47,249 |
| Accounts payable and accrued liabilities | (105,954) | (16,421) |
| Prepaid expenses and deposits | (4,925) | 64,996 |
| | <u>(1,008,263)</u> | <u>(1,148,115)</u> |
| Cash used in continuing operations | (1,008,263) | (1,148,115) |
| Cash used in discontinued operations | - | (2,971,502) |
| | <u>(1,008,263)</u> | <u>(4,119,617)</u> |
| Investing activities | | |
| Short term investments | - | 316,639 |
| Mineral interest expenditures | (14,325) | (90,622) |
| Purchase of equipment | (9,998) | (12,865) |
| Cash proceeds on sale of subsidiary | - | 324,210 |
| Discontinued operations | - | (4,557,292) |
| | <u>(24,323)</u> | <u>(4,019,930)</u> |
| Cash used in investing activities | (24,323) | (4,019,930) |
| Financing activities | | |
| Shares issued | 1,022,749 | 34,900 |
| Share issuance costs | (37,638) | 4,578 |
| Discontinued operations | - | 6,294,188 |
| | <u>985,111</u> | <u>6,333,666</u> |
| Cash provided by financing activities | 985,111 | 6,333,666 |
| Net decrease in cash | (47,475) | (1,805,881) |
| Cash, beginning of year | 4,323,180 | 6,129,061 |
| Cash, end of year | <u>\$ 4,275,705</u> | <u>\$ 4,323,180</u> |
| Cash is composed of: | | |
| Cash and cash equivalents | \$ 4,250,705 | \$ 4,298,180 |
| Restricted cash | 25,000 | 25,000 |
| | <u>\$ 4,275,705</u> | <u>\$ 4,323,180</u> |

The non-cash transactions described in notes 3 and 8 have been eliminated from the consolidated statements of cash flows.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

1. Nature of operations

Brilliant Mining Corp. (“Brilliant” or the “Company”) was incorporated under the Alberta Business Corporations Act on October 1, 1998 and has its shares listed for trading on the TSX Venture Exchange. In the 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 held a 25% interest in the unincorporated Lanfranchi Joint Venture (“LJV”) consisting of a producing nickel mine property in Western Australia. During the year ended September 30, 2009, the Company completed the sale of Donegal, including its 25% interest in the Lanfranchi Joint Venture, and all associated property and equipment as more fully described in note 3.

2. Significant accounting policies

Principles of consolidation and preparation of financial statements

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

The consolidated balance sheets as at September 30, 2010 and 2009 includes the assets and liabilities of the Company’s wholly owned subsidiaries 1389370 Alberta Ltd. and Brilliant Mining Corporation Pty Ltd. (formerly Donegal Mining Pty Ltd) (“BMCPL”). The consolidated statements of net income (loss), changes in shareholders’ equity and cash flows include the accounts of 1389370 Alberta Ltd. and BMCPL. The accounts of Donegal Resources Pty Ltd. (“Donegal”) have also been included up to the date of disposition on May 26, 2009 and have been classified as discontinued operations net of income tax.

The accounts of Donegal included its 25% interest in the LJV, which was accounted for using proportional consolidation whereby the accounts of Donegal included 25% of the LJV’s assets, liabilities and expenses. Donegal’s share of ore produced by the LJV was sold by it directly.

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

The valuation of mineral interests is based on management’s best estimate of the future recoverability of these assets. The amounts computed with respect to stock-based compensation are based on estimates as to the expected life of options and warrants granted and the volatility of the underlying stock during the period. Future income tax provisions, assets, 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. Fair value measurements may include estimates (note 11).

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.

Cash

Cash, including cash equivalents, is comprised of cash on deposit at the Company’s financial institutions. Restricted cash has been presented as a non-current asset, separate from cash and cash equivalents.

Comprehensive income and equity

Comprehensive income consists of net income and other comprehensive income (“OCI”). OCI represents changes in shareholders’ equity during a period arising from transactions and other events with non-owner sources. When

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

applicable, components of OCI are recorded net of related income taxes. Cumulative changes in OCI are included in accumulated other comprehensive income ("AOCI"), which is presented as a category of shareholders' equity in the consolidated statements of changes in shareholders' equity.

Financial instruments

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

| 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• Restricted cash• Certain investments | Fair value; unrealized gains and losses recognized in net income |
| <ul style="list-style-type: none">• Available-for-sale financial assets | <ul style="list-style-type: none">• Certain investments | Fair value; unrealized gains and losses recognized in OCI; recognized in net income on sale of the asset or when asset is written down as impaired |
| <ul style="list-style-type: none">• 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 | Amortized cost using the effective interest rate method; if liability is derecognized, recognized in net income |

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

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

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

Foreign currency

The Company applies the temporal method in the translation and consolidation of its integrated foreign subsidiary, BMCPL, and all foreign currency transactions. Monetary items are translated into Canadian Dollars at the exchange rate in effect on the balance sheet date. Non-monetary items are translated at historical exchange rates, except where such items are carried at market, in which case they are translated at the exchange rate in effect at the balance sheet date. Revenue and expenses are translated in a manner that produces substantially the same reporting currency amounts that would have resulted had the underlying transactions been translated on the dates they occurred. Amortization of assets translated at historical exchange rates is translated at the same exchange rate as the assets to which it relates.

For its investment in Donegal prior to May 26, 2009, which was classified as a self-sustaining foreign operation, the Company applied the current rate method in the translation and consolidation. All assets and liabilities of the

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

Company's self-sustaining foreign operations were translated into Canadian Dollars at the rate of exchange prevailing at the balance sheet date. Revenue and expense items and cash flows were translated into Canadian Dollars at the average rate of exchange for the year. Changes in the value of the Company's net investment in self-sustaining foreign operations due to foreign currency movements were recorded as a component of OCI. Changes in the net investment in self-sustaining foreign operations results in the reclassification of the associated portion of foreign currency translation held as a component of AOCI to net income in the period of change.

Flow through shares

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

Future income taxes

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

Impairment of long-lived assets

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

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.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

Mineral interests

The Company is in the process of exploring its resource property and has not yet determined whether this property 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 dependent upon the determination of the economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof. In addition, the resource property costs are evaluated on an annual basis for impairment and, where impairment occurs, related resource costs are written off.

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

Net income (loss) per common share

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

Property, plant, and equipment

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

| | |
|--------------------------------|----------------|
| Computer equipment | 30 % |
| Office furniture and equipment | 7.5 % - 37.5 % |
| Buildings | 2.5 % |

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.

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 income with a corresponding increase to contributed surplus. The fair value of options granted are determined at the date of grant and expensed over the

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

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.

New accounting policies

The following new accounting policies have been adopted by the Company effective October 1, 2009:

Financial instruments

In June 2009, the CICA Handbook Section 3862 was amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The additional fair value measurements disclosures include classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

These new disclosure requirements are effective for the Company beginning October 1, 2009. The adoption of these new disclosure requirements are contained in note 11.

The following new accounting policies were adopted by the Company effective October 1, 2008:

General Standards of Financial Statement Presentation

The Canadian Institute of Chartered Accountants (“CICA”) has amended CICA Section 1400 General Standards of Financial Statement Presentation of the CICA Handbook to include requirements to assess and disclose the Company’s ability to continue as a going concern. This new accounting standard has been adopted by the Company as of October 1, 2008. The new standard does not have a material effect on the Company’s consolidated financial statements.

Goodwill and Intangible Assets

The CICA has issued Section 3064 – Goodwill and Intangible Assets, which replaces Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. The new accounting standard is effective on the Company’s interim and annual financial statements beginning October 1, 2008. This Section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this standard does not have a material effect on the Company’s consolidated financial statements.

Inventories

The CICA has issued section 3031 – Inventories, which provides expanded guidance on the measurement and disclosure requirements for inventories, and is effective on the Company’s interim and annual financial statements beginning October 1, 2008. Specifically, the new standard requires that inventories be measured at the lower of cost and net realizable value, and provides more guidance on the determination of cost and its subsequent recognition as

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

expense, including any write-down to net realizable value. The adoption of this new standard has not had a material effect on the Company's consolidated financial statements.

Credit risk and Fair Value of Financial Assets and Liabilities

The CICA has issued EIC 173 – Credit Risk and Fair Value of Financial Assets and Liabilities, which provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative financial instruments. This guidance was effective beginning October 1, 2008 with retrospective application without prior period restatement. The adoption of this new guidance does not have a material effect on the Company's consolidated financial statements.

Mining Exploration Costs

The CICA has issued EIC 174 – Mining Exploration Costs, which provides guidance on accounting for capitalization and impairment of exploration costs. This guidance is effective for the current financial year with retrospective application without restatement of prior periods. The adoption of this new guidance has not had a material effect on the Company's consolidated financial statements.

Future accounting pronouncements

Convergence with International Financial Reporting Standards

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

3. Discontinued operations

Sale of Donegal Resources Pty Ltd., including its 25% interest in the Lanfranchi Joint Venture

On February 26, 2009, the Company announced that it had entered into an agreement (the "Share Purchase Agreement") to sell all of the outstanding shares of Donegal, a wholly-owned subsidiary of the Company including a 25% interest in the Lanfranchi Nickel Mine, associated tenements, and the LJV, to Panoramic Resources Ltd. ("Panoramic"). Panoramic is an Australian based nickel sulphide producer listed on the Australian Stock Exchange under the symbol "PAN", and was the Company's joint venture partner in the LJV.

At a special meeting of shareholders on May 19, 2009, the Company's shareholders approved the Share Purchase Agreement as well as a plan of arrangement ("Arrangement") whereby the Company distributed the Panoramic Shares ("see below") to the Company's shareholders by way of a reduction of stated capital. The Arrangement also provided for the consolidation of the common shares of the Company on the basis of one post-consolidation common share for two pre-consolidation common shares (see note 8).

The Share Purchase Agreement closed on May 26, 2009 pursuant to the receipt by the Company of shareholder approval, and Panoramic's notification that it had satisfactorily completed its due diligence.

Under the terms of the Share Purchase Agreement, the Company retained accumulated working capital, less corporate costs incurred to the closing date, from operations of the Lanfranchi Nickel Mine up to October 31, 2008, which is the "Effective Date" as contemplated by the Share Purchase Agreement. Consideration received for the shares of Donegal consisted of 12 Million ordinary shares of Panoramic ("Panoramic Shares") and 3 Million ordinary share purchase options of Panoramic exercisable at AUD 1.50 per ordinary share until December 31, 2012 ("Panoramic Options"), as well as certain cash adjustments. Beneficial ownership of the Panoramic Shares was distributed to shareholders of the Company as part of a Plan of Arrangement (note 8) on May 29, 2009. The Panoramic Shares were subject to escrow restrictions until November 26, 2009; during which time they were being held by the Company in trust for its shareholders.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

The consideration received for Donegal was as follows:

| | |
|--------------------------------|---------------------|
| Panoramic Shares ¹ | \$ 8,325,336 |
| Panoramic Options ² | 370,321 |
| Cash ³ | <u>772,030</u> |
| Total consideration received | <u>\$ 9,467,687</u> |

¹ 12,000,000 ordinary shares of Panoramic (PAN:ASX) valued at an 11-day weighted average quoted market closing price centered on the date of announcement of the sale of Donegal (February 26, 2009): AUD 0.79/share; 1.1387 AUD:CAD

² 3,000,000 options to purchase shares of Panoramic as described above, valued using the Black-Scholes option pricing model with the following assumptions: market price at issuance, AUD 0.79 (1.1387 AUD:CAD); expected life, 3.6 years; expected volatility 47%; risk free interest rate, 2%.

³ Of the cash consideration, \$482,445 was receivable from Panoramic at September 30, 2009. During the year ended September 30, 2010, the Company has recorded a provision against this receivable in the amount of \$264,526 due to uncertainty of collection. The recognized receivable amount at September 30, 2010 is \$248,325 (AUD 250,000).

As a result of the Sale of Donegal, certain revenues and expenses have been re-classified to discontinued operations on the consolidated statements of net income (loss) for the comparative period presented therein. A summary of these amounts follows:

| Years ended September 30 | 2010 | 2009 |
|---|-------------|-----------------------|
| Revenues | \$ - | \$ 17,752,108 |
| Expenses | - | (24,720,286) |
| Loss on sale of discontinued operations | - | (4,698,098) |
| Income taxes | - | <u>2,716,530</u> |
| Discontinued Operations | <u>\$ -</u> | <u>\$ (8,949,746)</u> |
| Basic net income (loss) from discontinued operations per common share | <u>\$ -</u> | <u>\$ (0.24)</u> |
| Diluted net income (loss) from discontinued operations per common share | <u>\$ -</u> | <u>\$ (0.24)</u> |

The following table provides a summary of the major classes of assets and liabilities disposed of in the Sale of Donegal:

| | |
|--|----------------------|
| Cash and cash equivalents | \$ 1,232,531 |
| Receivables | 8,056,259 |
| Inventories | 537,570 |
| Other assets | 184,013 |
| Plant and equipment | 4,982,864 |
| Mine property | 19,253,917 |
| Accounts payable and accrued liabilities | (15,445,319) |
| Capital lease liabilities | (2,722,620) |
| Asset retirement obligation | (342,305) |
| Future income taxes | <u>(2,215,061)</u> |
| | <u>\$ 13,521,849</u> |

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2010 and 2009

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 7 in a manner consistent with the requirements for segmented information.

The following table allocates assets by segment:

| As at September 30 | 2010 | 2009 |
|--------------------|----------------------|----------------------|
| Canada | \$ 12,233,198 | \$ 10,866,582 |
| Australia | <u>75,758</u> | <u>520,387</u> |
| Total assets | <u>\$ 12,308,956</u> | <u>\$ 11,386,969</u> |

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

| Year ended September 30 | 2010 | 2009 |
|-------------------------|------------------|------------------|
| Canada | \$ 23,729 | \$ 18,434 |
| Australia | <u>19,726</u> | <u>9,848</u> |
| Total revenues | <u>\$ 43,455</u> | <u>\$ 28,282</u> |

| Year ended September 30 | 2010 | 2009 |
|--|---------------------|----------------------|
| Canada | \$ (549,629) | \$ 11,986,677 |
| Australia | <u>(92,391)</u> | <u>(102,282)</u> |
| Net income (loss) from continuing operations | <u>\$ (642,020)</u> | <u>\$ 11,884,395</u> |

5. Cash and cash equivalents

Cash consists of cash on demand deposit with accredited financial institutions in Canada and Australia. The Company has provided \$25,000 (2009 - \$25,000) of cash as security to one of the Company's financial institutions for corporate credit card liabilities. This item has been classified as a non-current asset

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements
For the years ended September 30, 2010 and 2009

6. Mineral interests

| | Ossok West | Michikamau | Total |
|-----------------------------------|-------------|---------------------|---------------------|
| Balance, September 30, 2008 | \$ 152,923 | \$ 1,855,597 | \$ 2,008,520 |
| Acquisition cost | - | 10,000 | 10,000 |
| Geological consulting | - | 11,323 | 11,323 |
| Mineral interests write-down | (152,923) | - | (152,923) |
| Balance, September 30, 2009 | - | 1,876,920 | 1,876,920 |
| Acquisition cost | - | 10,000 | 10,000 |
| Claims and land use | - | 4,325 | 4,325 |
| Balance September 30, 2010 | \$ - | \$ 1,891,245 | \$ 1,891,245 |

| Balances (Michikamau) | 2010 | 2009 |
|--|---------------------|---------------------|
| Acquisition cost | \$ 78,155 | \$ 68,155 |
| Claims, land use and refundable deposits | 145,495 | 141,170 |
| Exploration | 1,667,595 | 1,667,595 |
| Total | <u>\$ 1,891,245</u> | <u>\$ 1,876,920</u> |

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

Michikamau

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

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

During the year ended September 30, 2006, the Company staked additional claims at the Michikamau property, which are 100% owned by the Company. During the years ended September 30, 2009 and 2008, the Company allowed several claims in the Michikamau claim group to lapse. The Company has retained the claim assessed to be of the highest prospectivity and has not written down the carrying value of the property.

Ossok West and Ossok East

During the year ended September 30, 2009, the Company allowed the mineral claims in Labrador constituting the Ossok West property to lapse as the property lacked merit relative to other opportunities. The carrying value of the property was charged to net income in the year resulting in a loss of \$152,923, classified as a mineral interest write-down.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

Project Generation

During the year ended September 30, 2010, the company incurred costs of \$ nil (2009 - \$69,299) in project generation activities. As the company has not acquired any properties as a result of this work, these costs have been charged to net income (loss) as a component of mineral interest write down.

7. Property, plant, and equipment

As at September 30, 2010

| | Cost | Accumulated Amortization | Net |
|--------------------------------|-------------------|-----------------------------|------------------|
| Canadian operations | | | |
| Computer equipment | \$ 69,141 | \$ 36,609 | \$ 32,532 |
| Office furniture and equipment | 8,016 | 4,897 | 3,119 |
| | <u>77,157</u> | <u>41,506</u> | <u>35,651</u> |
| Australian operations | | | |
| Buildings | 52,318 | 1,658 | 50,660 |
| Office furniture and equipment | 22,950 | 16,210 | 6,740 |
| | <u>75,268</u> | <u>17,868</u> | <u>57,400</u> |
| | <u>\$ 152,425</u> | <u>\$ 59,374</u> | <u>\$ 93,051</u> |

As at September 30, 2009

| | Cost | Accumulated Amortization | Net |
|--------------------------------|-------------------|-----------------------------|------------------|
| Canadian operations | | | |
| Computer equipment | \$ 59,142 | \$ 28,850 | \$ 30,292 |
| Office furniture and equipment | 8,016 | 4,117 | 3,899 |
| | <u>67,158</u> | <u>32,967</u> | <u>34,191</u> |
| Australian operations | | | |
| Buildings | 52,318 | 360 | 51,958 |
| Office furniture and equipment | 27,917 | 15,708 | 12,209 |
| | <u>80,235</u> | <u>16,068</u> | <u>64,167</u> |
| | <u>\$ 147,393</u> | <u>\$ 49,035</u> | <u>\$ 98,358</u> |

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

8. Share capital

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

Private placement

On October 16, 2009, the Company closed on a non-brokered private placement of 6,666,666 units of the Company at a price of \$0.15 per Unit for gross proceeds of \$1,000,000. Each Unit consisted of one common share of the Company ("Common Share") and one non-transferable share purchase warrant ("Warrant") entitling the holder to acquire one additional Common Share at a price of \$0.20 per Common Share until October 15, 2014. The Company paid \$15,000 in finder's fees and issued non-transferable share purchase warrants to acquire an aggregate of 100,000 Common Shares on the same terms as the Warrants. The Company assigned the full amount of the proceeds to the Common Shares and none to the warrants.

Plan of Arrangement

Pursuant to the Company filing articles of arrangement related to the Arrangement (note 3) at the close of trading on May 29, 2009 (the "Effective Time"), beneficial ownership of 12 million ordinary shares of Panoramic Resources Ltd. (PAN:ASX) ("Panoramic Shares"), issued to Brilliant as partial consideration for the sale of Donegal (note 3), were distributed to Brilliant's shareholders of record ("Brilliant Shareholders") on a pro-rata basis as a return of stated capital. The Panoramic Shares were subject to escrow restrictions (as detailed in note 3) until November 26, 2009 (the "Escrow Period"). As such, the Company shall remain the registered owner of the Panoramic Shares, held in trust for the Brilliant Shareholders, until expiry of the Escrow Period. At the Effective Time, the Company determined that the Panoramic Shares had an aggregate fair value of \$21,400,472 based on the closing price of the shares of Panoramic Resources Ltd. on the Australian Stock Exchange of AUD 2.04 per common share of Panoramic, and a Bank of Canada closing exchange rate of AUD 1.1439 per \$1.00. As a result of the distribution of the Panoramic Shares to the Brilliant Shareholders by way of return of stated capital, the Company's share capital has been reduced by the fair value of the Panoramic Shares as presented on the consolidated statement of changes in shareholders' equity.

Share consolidation

During the year ended September 30, 2009, the Company's common shares were consolidated on the basis of one post-consolidation common share for two pre-consolidation common shares of the Company. As a result, all share and per share amounts in these consolidated financial statements, including comparative information, have been restated to account for the effect of this share consolidation.

Per share calculations

For the year ended September 30, 2010, the basic and diluted weighted average number of common shares outstanding was 43,060,545. For the year ended September 30, 2010, the effect of stock options, warrants, and agents' warrants would be anti-dilutive as the Company was in a net loss position.

For year ended September 30, 2009, the basic and the diluted weighted average number of common shares outstanding was 36,532,829 and 36,631,000 respectively.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

Warrants

The following table summarizes activity related to warrants:

| Year ended September 30 | 2010 | | 2009 | |
|-----------------------------|-------------------------|---------------------------------------|-------------------------|---------------------------------------|
| | Number of warrants # | Weighted average exercise price \$ | Number of warrants # | Weighted average exercise price \$ |
| Balance – beginning of year | - | - | - | - |
| Issued | 6,666,666 | 0.20 | - | - |
| Balance – end of year | 6,666,666 | 0.20 | - | - |

The following table summarizes information about warrants outstanding:

| As at September 30 | 2010 | | | 2009 | | |
|--------------------|-------------------------------------|---------------------------------------|--|-------------------------------------|---------------------------------------|--|
| | Number of warrants outstanding # | Weighted average exercise price \$ | Weighted average remaining contractual life Years | Number of warrants outstanding # | Weighted average exercise price \$ | Weighted average remaining contractual life Years |
| | 6,666,666 | 0.20 | 4.0 | - | - | - |

Agents' Warrants

The following table summarizes activity related to agents' warrants:

| Year ended September 30 | 2010 | | 2009 | |
|-----------------------------|-------------------------|---------------------------------------|-------------------------|---------------------------------------|
| | Number of warrants # | Weighted average exercise price \$ | Number of warrants # | Weighted average exercise price \$ |
| Balance – beginning of year | - | - | - | - |
| Issued | 100,000 | 0.20 | - | - |
| Balance – end of year | 100,000 | 0.20 | - | - |

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

The following table summarizes information about agents' warrants outstanding:

| As at September 30 | | 2010 | | | 2009 | |
|---|---|--|---|---|--|--|
| Number of agents' warrants outstanding # | Weighted average exercise price \$ | Weighted average remaining contractual life Years | Number of agents' warrants outstanding # | Weighted average exercise price \$ | Weighted average remaining contractual life Years | |
| 100,000 | 0.20 | 4.0 | - | - | - | |

On October 16, 2009, the Company issued non-transferable share purchase warrants to acquire an aggregate of 100,000 Common Shares on the same terms as the Warrants issued in the private placement closing on the same date as previously described. The estimated share issuance cost related to the 100,000 stock agents' warrants granted on October 16, 2009 was calculated using the Black Scholes option pricing model using the following weighted average grant-date assumptions: grant date stock price \$0.17; risk free interest rate 2.78%; expected volatility 80.0%, and expected annual dividends of 0%.

Stock options

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

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

A summary of stock option activity is as follows:

| Year ended September 30 | 2010 | | 2009 | |
|------------------------------|---------------------------|---|---------------------------|--|
| | Number of options # | Weighted average exercise price \$ | Number of options # | Weighted average exercise price \$ |
| Balance – beginning of year | 3,647,500 | 0.15 | 3,434,000 | 1.82 |
| Issued | - | - | 1,225,000 | 0.15 |
| Options repriced – old price | - | - | (2,367,500) | (2.11) |
| Options repriced – new price | - | - | 2,367,500 | 0.15 |
| Exercised | (125,000) | 0.18 | (117,500) | (0.30) |
| Expired | - | - | (894,000) | (1.53) |
| Balance – end of year | 3,522,500 | 0.15 | 3,647,500 | 0.15 |

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

The following table summarizes information about stock options outstanding:

| As at September 30, | 2010 | | | 2009 | | |
|--|---|--|--|---|--|--|
| Number of options outstanding # | Weighted average exercise price \$ | Weighted average remaining contractual life Years | Number of options outstanding # | Weighted average exercise price \$ | Weighted average remaining contractual life Years | |
| - | - | - | 50,000 | 0.23 | 0.3 | |
| 67,500 | 0.32 | 0.1 | 67,500 | 0.32 | 1.1 | |
| 67,500 | 0.15 | 0.8 | 117,500 | 0.15 | 1.8 | |
| 1,475,000 | 0.15 | 1.0 | 1,475,000 | 0.15 | 2.0 | |
| 12,500 | 0.15 | 1.6 | 12,500 | 0.15 | 2.6 | |
| 275,000 | 0.15 | 2.0 | 300,000 | 0.15 | 3.0 | |
| 400,000 | 0.15 | 2.1 | 400,000 | 0.15 | 3.1 | |
| 1,175,000 | 0.15 | 3.7 | 1,175,000 | 0.15 | 4.7 | |
| 50,000 | 0.175 | 3.9 | 50,000 | 0.175 | 4.9 | |
| 3,522,500 | 0.15 | 2.1 | 3,647,500 | 0.15 | 3.1 | |

During the year ended September 30, 2009, the Company recognized stock based compensation expense related to: stock options issued in the year ended September 30, 2008 and vesting in 2009 totaling \$7,839; stock options issued and vesting during 2009 totaling \$ 117,500.

On January 5, 2009, shareholders of the Company approved a resolution whereby the Directors of the Company are authorized to amend the exercise price of outstanding stock options granted to insiders of the Company pursuant to the Plan, subject to the approval of the TSX Venture Exchange, provided the amended exercise price per Common Share shall not be less than the greater of the Discounted Market Price (as defined by the Exchange Policy 1.1) and \$0.50.

On May 19, 2009, the Company obtained disinterested shareholder approval to authorize the Directors of the Company to further amend the exercise price of outstanding stock options granted to insiders of the Company pursuant to the Plan ("Insider Options"), subject to the approval of the TSX Venture Exchange.

On June 19, 2009, the Directors of the Company effected a repricing of 2,367,500 outstanding stock options with a weighted average original exercise price of \$2.11 per option to \$0.15 per option. As a result of this transaction, the Company recorded stock based compensation expense in 2009 in the amount of \$157,300 representing the incremental increase in the fair value of the options resulting from the new exercise prices.

On June 19, 2009, the Directors of the Company authorized the issuance of 1,175,000 stock options under the Plan, exercisable at \$0.15 and vesting immediately. Pursuant to this option grant, the Company recorded stock based compensation in the amount of \$117,500 in 2009.

On August 25, 2009, the Directors of the Company authorized the issuance of 50,000 stock options under the Plan, exercisable at \$0.175 and vesting immediately. Pursuant to this grant of options, the Company recorded stock based compensation in the amount of \$5,500 in 2009.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

The estimated stock based compensation expense related to the 1,225,000 stock options granted in the year ended September 30, 2009 was calculated using the Black Scholes option pricing model using the following weighted average grant-date assumptions: grant date stock price \$0.15; risk free interest rate 2.64%; expected volatility 80.0%, and; expected annual dividends of 0%

All of the 1,225,000 options issued in the year ended September 30, 2009 had an exercise price equal to the grant date market price.

9. Income taxes

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

| As at September 30 | 2010 | 2009 |
|------------------------------------|-------------|-------------|
| Mineral interests | 137,284 | 137,203 |
| Property, plant, and equipment | (10,377) | 7,800 |
| Undeducted share issue costs | (8,422) | (64,636) |
| Investments | 374,670 | 227,638 |
| Other | (140) | (151) |
| Non-capital losses carried forward | (1,321,922) | (1,064,600) |
| Capital losses carried forward | (551,738) | (521,264) |
| | (1,380,645) | (1,278,010) |
| Valuation allowance | 1,380,645 | 1,278,010 |
| Future income tax liability | \$ - | \$ - |

The Company has available the benefit of Canadian capital and non-capital tax losses carried forward. Capital losses totaling approximately \$4,414,000 are available to the Company to deduct against future capital gains, and do not expire. The Company's non-capital losses expire as follows:

| | |
|------|---------------------|
| 2026 | \$ 693,681 |
| 2027 | 1,329,878 |
| 2029 | 2,234,842 |
| 2030 | 1,029,286 |
| | <u>\$ 5,287,687</u> |

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

The provision for income taxes recorded in the consolidated financial statements differs from the amount which would be obtained by applying the combined statutory income tax rate of approximately 28.25% (2009 – 29.15%) to the net income (loss) from continuing operations before income taxes for the years as follows:

| | 2010 | 2009 |
|--|--------------|--------------|
| Expected tax expense (recovery) from continuing operations | \$ (209,010) | \$ 4,286,415 |
| Difference resulting from: | | |
| Stock based compensation | - | 83,993 |
| Mineral interests written off | - | 44,577 |
| Disposition of held for trading financial assets | - | (1,905,701) |
| Other | (2,466) | (750,348) |
| Change in tax rates | 11,003 | (216,658) |
| Change in valuation allowance | 102,635 | 1,278,010 |
| | <hr/> | <hr/> |
| Future income tax expense (benefit) | \$ (97,838) | \$ 2,820,288 |

10. Related party transactions

During the year ended September 30, 2010, the Company incurred management consulting fees included in general and administrative expenses of \$190,712 (2009 - \$413,441) to directors and officers, or companies controlled by them. All amounts were fully paid as at September 30, 2010 and 2009.

At September 30, 2009 the Company had accounts payable to companies with common directors in the amount of \$88,281 (2010 – Nil) relating to the reimbursement of shared office, staff, and administrative costs. The amounts were paid subsequent to September 30, 2009.

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

11. Financial instruments

Available-for-sale financial instruments

Investments

During the year ended September 30, 2008, the Company acquired marketable securities for a gross cost of \$2,258,910. This investment has been classified as available-for-sale; consequently the investment is carried at its fair value (with reference to the quoted stock exchange price (Level 1)) with unrealized gains and losses recognized as a component of other comprehensive income. The fair value of the marketable securities at September 30, 2010 was \$1,467,540 (September 30, 2009 - \$684,852). The change in fair value of these marketable securities has been recorded, net of future income taxes, as a component of other comprehensive income on the statement of changes in shareholders' equity.

Held for trading financial instruments

Investments

The Panoramic Options (note 3) issued to the Company as partial consideration for Donegal, were initially recognized at their estimated fair value of \$370,321 as determined using the Black Scholes option pricing model (Level 3). The Panoramic Options consist of 3,000,000 unlisted options to purchase ordinary shares of Panoramic at AUD 1.50 per share, until December 31, 2012. At September 30, 2010, the estimated fair value of the Panoramic Options is \$4,159,049 (September 30, 2009 - \$3,765,479). The resulting unrealized gain of \$393,570 for the current year has been recognized in the consolidated net loss for the year. The assumptions used in the calculation of the fair

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

value of the Panoramic Options at September 30, 2010 are as follows: stock price \$2.69; risk free interest rate 1.40%; expected volatility 47%, and expected annual dividends of 0%.

The following table shows a reconciliation of movements in fair value of the Panoramic Options categorized within level 3 for the years ended September 30, 2010 and 2009.

| | 2010 | 2009 |
|---|---------------------|---------------------|
| Opening Balance | \$ 3,765,479 | \$ - |
| Received pursuant to the sale of Donegal | - | 370,321 |
| Unrealized gain on held for trading financial assets (included in net income/loss) | <u>393,570</u> | <u>3,395,158</u> |
| Closing Balance | <u>\$ 4,159,049</u> | <u>\$ 3,765,479</u> |

During the years ended September 30, 2010 and 2009, there were no transfers of instruments between level 1, 2 or 3.

The Panoramic Shares (note 3) received as partial consideration for Donegal in the year ended September 30, 2009, were initially recognized at their fair market value of \$8,325,336, based on an eleven day average quoted closing price centered on the date of announcement of the Share Purchase Agreement and the Arrangement, which was February 26, 2009 (Level 1). Beneficial ownership of the Shares of Donegal were distributed to the shareholders of the Company of record on May 29, 2009 (the "Effective Date"), as a return of stated capital, pursuant to the Arrangement. The fair market value of the Panoramic Shares at the Effective Date was \$21,400,472, and the Company recognized the change in fair value of the Panoramic Shares of \$13,075,136 as a component of net income (loss) in the year ended September 30, 2009.

Fair value

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

Investments are presented on the consolidated balance sheet at their fair value.

Capital management

The Company's capital consists of share capital.

The Company's objectives in managing its capital are: to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to perform mineral exploration activities on the Company's exploration projects; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficits.

The Company may also utilize debt facilities or instruments, including convertible debt instruments, for capital management.

The Company may, from time to time, invest capital that is surplus to immediate operational needs in short-term, liquid, and highly rated financial instruments held with major financial institutions, or in marketable securities.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

Risk management

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

Interest risk

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

The Company had approximately \$4.25 Million in cash and cash equivalents at September 30, 2010, on which it may earn variable rates of interest, and may therefore be subject to a certain amount of risk, though this risk is deemed to be immaterial to management of the Company. If prevailing interest rates were to change by +/- 1%, the effect on net loss is estimated to be +/- \$42,507.

Credit risk

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

The Company has assessed its exposure to credit risk and has determined that such risk is minimal. The majority of the Company's cash and cash equivalents are held with financial institutions in Canada and Australia. Cash and cash equivalents held with the Company's Canadian financial institution are guaranteed in full by the Crown in Right of Alberta. A substantial amount of the Company's receivables is due from the purchaser of Donegal (note 3). The Company has recorded a provision against the receivable from the purchaser of Donegal during the year ended September 30, 2010 in the amount of \$264,526 based on management's assessment of collectability and ongoing negotiation with the counterparty. Other than the receivable from the purchaser of Donegal, the Company has determined that no significant risks exist from these concentrations of credit.

Foreign currency risk

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

The Company maintains its cash reserves primarily in Canadian Dollars. Some cash may be denominated in various other currencies, and is therefore subject to fluctuations in foreign exchange rates. The effect of exchange rate movements on the Company's cash and other working capital balances is not considered material by management. The Company's corporate costs and share capital, as well as the Company's reporting currency, is in Canadian Dollars.

Liquidity risk

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

As at September 30, 2010, the Company has consolidated working capital of \$4,578,323, and does not have any long-term liabilities. As such the Company has determined that its liquidity risk is nominal.

Brilliant Mining Corp.

Notes to the Consolidated Financial Statements

For the years ended September 30, 2010 and 2009

12. Comparative figures

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

13. Subsequent events

Subsequent to September 30, 2010, the Company announced a Memorandum of Understanding ("MOU") with an arm's length party whereby the Company intends to complete a private placement with a number of parties in conjunction with the acquisition of Ivory Resources Inc. ("Ivory") (the "Transaction"). The Transaction as contemplated in the MOU will require the issuance of approximately 92,592,592 units of the Company ("Units") at a price of \$0.27 per Unit, and approximately 9,259,259 common shares of the Company ("Common Shares") at a deemed price of \$0.27 per Common Share. The Units shall consist of one Common Share and one Common Share purchase warrant entitling the holder to purchase an additional Common Share at an exercise price of \$0.45 and expiring 24 months after closing of the Transaction. The precise number of Units and Common Shares to be issued is subject to change.

The aggregate cash amount expected to be received by the Company, both through its investment in Ivory and through the contemplated private placement of units, will be approximately \$20-25 Million, less cash expended by Ivory prior to completion of the Transaction.

The Company and the various parties to the Transaction are currently negotiating the remaining components of the transaction. The Transaction and its various component parts are subject to satisfactory due diligence, regulatory approval and may be subject to shareholder or disinterested shareholder approval, as determined by the relevant regulatory agencies.

As the Transaction has not yet been finalized, the Company is unable to determine the effects of the Transaction on the Company's consolidated financial statements.

Credit Facility Agreement

Brilliant and Ivory have entered into a Credit Facility Agreement dated December 7, 2010 ("Credit Facility Agreement") under which Brilliant has loaned CDN\$1,500,000 to Ivory. Ivory has issued a promissory note to Brilliant for CDN\$1,500,000.