

BRILLIANT MINING CORP.
Financial Statements
Years Ended September 30, 2004 and 2003

Index to Financial Statements

BRILLIANT MINING CORP.

September 30, 2004 and 2003

page number

1	Auditors' Report
2	Statements of Loss and Deficit
3	Balance Sheets
4	Statements of Cash Flow
5 - 17	Notes to the Financial Statements

2900 Bell Tower

10104-103 Avenue

Edmonton, Alberta

T5J 0H8

Tel: 780.424.3000

Fax: 780.429.4817

www.krpgroup.com

An independent member firm



October 22, 2004
(except as to note 14
which is as of
February 3, 2005)
Edmonton, Alberta

Auditors' Report

To the shareholders of Brilliant Mining Corp.:

We have audited the balance sheets of Brilliant Mining Corp. as at September 30, 2004 and 2003 and the statements of loss and deficit and cash flow 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 financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2004 and 2003 and the results of its operations and cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Kingston Ross Pasnak LLP

Kingston Ross Pasnak LLP

Chartered Accountants

Statements of Loss and Deficit

BRILLIANT MINING CORP.

Years ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
EXPENSES		
Stock-based compensation	\$ 33,250	\$ -
Management fees	18,000	-
Professional fees	16,570	19,016
Rent	15,440	26,946
Corporate fees	8,900	16,303
Office and administration	3,850	8,237
Amortization	286	544
LOSS FROM OPERATIONS	96,296	71,046
OTHER INCOME		
Interest	2,108	2,200
NET LOSS	94,188	68,846
DEFICIT, BEGINNING OF YEAR	397,553	328,707
DEFICIT, END OF YEAR	\$ 491,741	\$ 397,553
LOSS PER COMMON SHARE (Note 11)		
Basic	\$ 0.014	\$ 0.010

Balance Sheets

BRILLIANT MINING CORP.

September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
CURRENT ASSETS		
Cash and short-term deposits	\$ 58,419	\$ 105,387
GST receivable	4,236	4,174
Prepaid expenses	-	2,097
	<u>62,655</u>	<u>111,658</u>
MINERAL INTERESTS (Note 3)	555,034	548,811
PROPERTY AND EQUIPMENT (Note 4)	-	114,629
	<u>\$ 617,689</u>	<u>\$ 775,098</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITY		
Accounts payable and accrued liabilities	\$ 17,427	\$ 21,582
Advances from directors (Note 5)	21,944	187,021
	<u>39,371</u>	<u>208,603</u>
CONTINGENCY AND COMMITMENT (Note 6)		
SHARE CAPITAL (Note 7)	964,048	964,048
CONTRIBUTED SURPLUS (Note 8)	106,011	-
DEFICIT	(491,741)	(397,553)
	<u>578,318</u>	<u>566,495</u>
	<u>\$ 617,689</u>	<u>\$ 775,098</u>

APPROVED BY THE BOARD

(signed) "Sean Mager" _____ Director

(signed) "John Williamson" _____ Director

Statements of Cash Flow

BRILLIANT MINING CORP.

Years ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (94,188)	\$ (68,846)
Adjustments for items not affecting cash:		
Stock-based compensation	33,250	-
Amortization	286	544
	<u>(60,652)</u>	<u>(68,302)</u>
Changes in non-cash working capital items		
GST receivable	(62)	12,585
Prepaid expenses	(4,155)	4,344
Accounts payable and accrued liabilities	2,097	(2,097)
	<u>(62,772)</u>	<u>(53,470)</u>
CASH FLOWS FROM INVESTING ACTIVITY		
Expenditures on exploration costs	(6,223)	(18,982)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances from director	22,027	-
Advances to former director	-	(213,000)
	<u>22,027</u>	<u>(213,000)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(46,968)	(285,452)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	105,387	390,839
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 58,419	\$ 105,387
Cash and cash equivalents is comprised of the following:		
Cash	\$ 58,419	\$ 5,423
Term deposit due February 4, 2004 @ 1.75%	-	99,964
	<u>\$ 58,419</u>	<u>\$ 105,387</u>

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 1
General

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. The principal business of the Company is the evaluation, acquisition and development of mineral properties and is considered to be in the exploration stage with respect to its mineral properties. The Company has not yet determined whether these properties contain precious mineral reserves that are economically recoverable and the Company is not presently carrying on active exploration efforts on certain of its mineral properties. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown in Note 3 represent costs to date for property acquisition and exploration expenditures and do not necessarily reflect present or future values.

Note 2
Significant Accounting
Policies

Significant accounting policies observed in the preparation of the financial statements are summarized below. These policies are in accordance with Canadian generally accepted accounting principles.

Revenue Recognition

Revenue is recognized when title to delivered precious metals or gemstones passes to the buyer.

Mineral Interests

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

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 2
 Significant Accounting
 Policies
 Continued...

Asset Retirement Obligations

The Company recognizes the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, with a corresponding increase in the carrying amount of the long-lived asset. The liability accretes until the Company expects to settle the retirement obligation. These asset retirement costs are depleted using the unit of production method and actual costs to retire the asset will be deducted from the liability as incurred. At this time the Company does not foresee the necessity to make any material expenditures in this area and the Company is not committed to any significant reclamation or other asset retirement obligations until such time as production commences.

Property and Equipment

Property and equipment are recorded at cost. The Company provides amortization on its property and equipment using the following methods and rates, except that no amortization is recorded on the mining equipment or the leasehold improvements to the shop facilities until drilling activity starts.

	<u>Method</u>	<u>Rate</u>
Automotive	Diminishing balance	30%
Mining equipment	Diminishing balance	20%
Computer equipment	Diminishing balance	30%
Leasehold improvements	Straight-line	5 years

Future Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under the asset and liability method, the change in the net future tax asset or liability is to be included in income. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be reversed or settled.

Earnings (Loss) Per Common Share

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

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 2

Significant Accounting
Policies
Continued...

Earnings or loss per share information as applicable, is calculated on the basis of the weighted average number of common shares outstanding during the year.

Financial Instruments

The Company's financial instruments consist of cash and short-term deposits, accounts payable and advances from director. The fair value of these financial instruments approximate their carrying values, unless otherwise noted. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

Measurement Uncertainty

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

Significant estimates and assumptions include the expected future recoverability of mineral interests as well as the risk-free rate and volatility amounts used in the calculation of stock-based compensation.

Statement of Cash Flow

The Company is using the indirect method in its presentation of the Statement of Cash Flow.

Stock-Based Compensation

On October 1, 2003 the Company prospectively adopted the new standard with respect to accounting for stock based compensation arrangements relating to stock options granted to directors, officers, employees and consultants. Stock options granted to directors, officers, employees and consultants after October 1, 2003 are accounted for using the fair value method. Under the fair value method, compensation expense related to these programs is recorded in the statement of loss and deficit with a corresponding increase to contributed surplus. The fair value of options granted are determined at the date of grant using the Black-Scholes valuation model.

Notes to the Financial Statements

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 2

Significant Accounting
Policies
Continued...

Options granted to directors, officers, employees and consultants prior to October 1, 2003 are accounted for using the intrinsic value method whereby the excess of the stock price on the date of the grant over the exercise price of the option is recorded as compensation expense. For options granted to directors, officers, employees and consultants, prior to October 1, 2003, the fair value of the options is measured and the pro-forma effect is disclosed in note 7.

All other stock-based compensation, including shares, options and warrants issued to the Company's agent are recorded at fair value in the current and preceding years.

Consideration paid on the exercise of stock options is credited to share capital, along with the fair value of the options originally recorded to contributed surplus. The Company does not incorporate an estimated forfeiture rate for stock options and agent's warrants that will not vest, but accounts for forfeitures as they occur.

Note 3

Mineral Interests

Deferred exploration costs on the Medley River property consist of the following:

	<u>2004</u>	<u>2003</u>
Balance, beginning of year	\$ 548,811	\$ 529,829
Exploration expenditures	6,223	18,982
Balance, end of year	<u>\$ 555,034</u>	<u>\$ 548,811</u>
Comprised of:		
Acquisition costs	\$ 150,000	\$ 150,000
Exploration costs	405,034	398,811
	<u>\$ 555,034</u>	<u>\$ 548,811</u>

Notes to the Financial Statements

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 3

Mineral Interests
Continued...

Medley River Property

Pursuant to an agreement dated March 19, 1999 and an amending agreement dated August 30, 2000 with a former director and a company controlled by a former director, the Company entered into an option agreement to acquire a 100% working interest, subject to certain royalty interests, in a mineral resource property in the Cold Lake, Alberta area.

No amortization of the above-noted deferred exploration costs has yet been recorded in the accounts.

The recoverability of the deferred costs is dependant upon the discovery of economically recoverable resources, the ability of the Company to obtain necessary financing to complete the exploration and development work and future profitable production or, alternatively, upon disposition of such properties.

Note 4

Property and Equipment

			2004	2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Mining equipment	\$ -	\$ -	\$ -	\$ 104,207
Leasehold improvements	-	-	-	9,153
Automotive	-	-	-	599
Computer equipment	-	-	-	670
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 114,629</u>

Amortization provided for in the current year totalled \$286; (2003 - \$544). During the year, all property and equipment was disposed of in exchange for the forgiveness of advances from a former director (refer to note 9(d)).

Note 5

Advances from
Directors

The advances are due on demand, bear no interest, are unsecured and have no specified terms of repayment. Due to the demand nature of the advances, the balance has been classified as current. Advances from a former director in the amount of \$187,104 were repaid by way of a settlement agreement involving distribution of the Company's property and equipment and the balance forgiven (refer to note 9(d)).

Notes to the Financial Statements

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 6

Contingency and Commitment

a) As at September 30, 2004 the Company was being sued by a supplier for the amount of \$10,753 in lost equipment. Management is currently defending the action and the outcome is undeterminable at this time, and accordingly, no provision has been made in the Company's accounts.

b) During the previous year, the Company had entered into a five year lease agreement with a related party (see note 9(a)) requiring minimum annual lease payments of \$24,000 per year expiring June 30, 2008. This lease agreement was cancelled during the current year upon negotiation between the Company and the related party and there is no future lease liability as at September 30, 2004

Notes to the Financial Statements

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 7
Share Capital

Authorized:

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

Class A shares issued:

	Number of Shares	
	2004	2003
Issued for cash	4,621,664	4,621,664
Issued for mineral properties	1,850,000	1,850,000
Issued for debt	83,333	83,333
Issued for services	100,000	100,000
	<u>6,654,997</u>	<u>6,654,997</u>

Class A shares issued:

	Amounts	
	2004	2003
Issued for cash	\$ 903,000	\$ 903,000
Issued for mineral properties	175,000	175,000
Issued for debt	20,000	20,000
Issued for services	40,000	40,000
	<u>1,138,000</u>	<u>1,138,000</u>
Cost of issuing shares	(173,952)	(173,952)
	<u>\$ 964,048</u>	<u>\$ 964,048</u>

Pursuant to a prospectus filed with the Alberta Securities Commission and the British Columbia Securities Commission on January 2, 2002, the Corporation offered on a best efforts basis 1,500,000 common shares at \$0.40 per share to the public. The public offering closed during the 2002 fiscal year with net proceeds received in May 2002.

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 7

Share Capital
Continued...

As at year end, 1,350,000; (2003 - 2,700,000) issued common shares are held in escrow and shall be released in accordance with the policies of the Alberta Securities Commission and TSX Venture Exchange. All shares held in escrow have been deposited with an escrow agent pursuant to an escrow agreement.

In connection with the initial public offering, the Corporation agreed to issue the agent 100,000 free trading common shares upon the closing of the offering as a portion of the Agent's corporate finance fee and to grant the agent a non-transferable option to acquire up to 150,000 common shares at a price of \$0.40 per share exercisable for a period ending two years from the date of the final prospectus. During the 2002 fiscal year 100,000 free trading shares valued at \$0.40 per share were issued and 100,000 of the options were exercised, leaving 50,000 option shares, which expired without being exercised on January 2, 2004.

Stock-Based Compensation

At a meeting of the shareholders held on September 12, 2003 a new Stock Option Plan for directors, officers, employees and consultants was approved under which the Corporation may reserve a maximum of 10% of the issued and outstanding listed common shares; the exercise price to be determined on the date of issuance of the option. All previously granted stock options pursuant to an agreement dated January 2, 2002, for 450,000 common shares at \$0.40 per share, exercisable within five years, continued in effect under this plan.

During the year, 390,000 of the 450,000 stock options which were outstanding as at the previous year end expired, being 30 days after the resignation of certain directors and officers of the Corporation and the remaining 60,000 stock options were cancelled.

Pursuant to a new Stock Option Agreement dated March 24, 2004, the Corporation has granted stock options for a total of 665,000 common shares to directors, officers and key employees. These options have no vesting period and may be exercised within five years from the date of grant or one year following the date the optionee ceases to be a director or officer of the Corporation by reason of death or 30 days for any reason other than death at a price of \$0.13 per common share.

The Company has recorded stock-based compensation in the amount of \$33,250; (2003 - nil) as an expense in the statement of loss and an increase to contributed surplus. The compensation expense has been determined based on the fair value of the options at the grant date and does not include any options issued prior to October 1, 2003. The weighted average grant date fair value of \$0.05; (2003 - \$0.01) per stock option is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

Notes to the Financial Statements

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 7

Share Capital

Continued...

	<u>2004</u>	<u>2003</u>
Estimated risk-free rate	2.8%	3.6%
Expected volatility	50%	50%
Estimated annual dividend yield	0%	0%
Expected life of the options	4.5 years	5 years
Spot rate	\$ 0.12	\$ 0.10

Had the Company accounted for stock options in the previous year using the fair value method, the Company's proforma net loss for the year ended September 30, 2003 would have increased by \$4,500. The effect on loss per share for the year ended September 30, 2003 would not be significant.

Note 8

Contributed Surplus

	<u>2004</u>	<u>2003</u>
Forgiveness of debt with related party (Note 9(d))	\$ 72,761	\$ -
Fair value of stock-based compensation (Note 7)	33,250	-
	<u>\$ 106,011</u>	<u>\$ -</u>

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 9
Related Party
Transactions

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

- a) Paid rent in the amount of \$15,440; (2003 - \$26,946) to a shareholder and former director of the Company. The underlying lease agreement was terminated during the current year.
- b) Paid consulting and other fees of \$636; (2002 - \$7,465) which have been capitalized as deferred exploration costs, to a company controlled by a shareholder and former director of the Company.
- c) Paid management fees to a company controlled by a current director and officer of the Company in the amount of \$18,000; (2003 - nil).

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

- d) Distributed the Company's property and equipment in exchange for the forgiveness of a debt owed to a shareholder and former director of the Company. The property and equipment carried a net book value of \$114,343 and the director's loan amounted to \$187,104, resulting in a gain on forgiveness of debt in the amount of \$72,761. The net book value of the property and equipment approximated its fair value at the date of settlement. This non-monetary related party transaction is not in the normal course of operations and has been recorded at the carrying value amount. Accordingly the gain on forgiveness is recorded as contributed surplus.

Notes to the Financial Statements

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 10
Income Taxes

The provision for income taxes differs from the amount obtained by applying the combined Federal and Provincial income tax rate to earnings before income taxes as follows:

	<u>2004</u>	<u>2003</u>
Statutory tax rate	34%	34%
Expected tax recovery	\$ (32,024)	\$ (23,408)
Increase (decrease) resulting from:		
Share issue costs deducted	(11,829)	(11,829)
Stock-based compensation not deducted	11,305	-
Gain on forgiveness of debt	12,369	-
Other	(833)	377
Benefit of income tax losses not recognized	21,012	34,860
Income tax expense	<u>\$ -</u>	<u>\$ -</u>

The components of future income tax balances are as follows:

	<u>2004</u>	<u>2003</u>
<u>Future tax assets</u>		
Tax basis of capital assets in excess of carrying values	\$ 11,900	\$ 12,988
Undeducted share issue costs	21,965	33,794
Non-capital loss carryforwards	165,153	144,141
Income tax expense	199,018	190,923
Valuation allowance	(199,018)	(190,923)
Future tax assets	<u>\$ -</u>	<u>\$ -</u>

The valuation allowance reflects management's assumption that the tax assets, more likely than not, will not be realized.

Notes to the Financial Statements

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 10

Income Taxes
Continued...

The Company has non-capital income tax losses carried forward for tax purposes aggregating to \$485,742, which are available for the reduction of future years' taxable income. The losses expire as follows:

2006	\$ 99,634
2007	83,508
2008	46,571
2009	91,704
2010	102,527
Thereafter	61,798
	<hr/>
	\$ 485,742

No recognition has been given in these financial statements to any potential tax savings arising from application of these items, as it is likely that the loss carryforwards will expire prior to being realized.

Note 11

Loss per Common
Share

The numerator used in the calculation of basic loss per common share is the Company's net loss of \$94,188; (2003 - \$68,846); the denominator used in the calculation is the weighted average number of common shares outstanding during the year of 6,654,997; (2003 - 6,654,997). This results in a basic loss per common share of \$0.014; (2003 - \$0.01). Diluted loss per common share has not been presented for 2004 or 2003 as the effect of the conversion of the options is anti-dilutive or immaterial.

Note 12

Supplemental Cash
Flow Disclosures

Interest income received during the year amounted to \$2,108; (2003 - \$2,200).

No interest or income taxes were paid during the current and prior years.

BRILLIANT MINING CORP.

September 30, 2004 and 2003

Note 13

Comparative Figures

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

Note 14

Subsequent Events

(a) New financing

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

(b) Mineral interest acquisition - Nunavut

On January 7, 2005 the Company signed an agreement with Falconbridge Limited to acquire a 100% interest in 15 prospecting permits in the Chesterfield Property in Nunavut. To acquire this mineral interest the company must incur \$1 million in exploration expenditures on the property by November 30, 2008, including the requirement to stake and then maintain annual assessment work on certain specified claims as well as certain specified survey and drilling programs.

The mineral interest is subject to a 1% net smelter royalty on gold deposits, a 2.5% net smelter royalty on base metal deposits and 1% gross overriding royalty on diamond deposits to the vendor as well as certain earn-in rights and a right of first refusal to the vendor.

(c) Mineral interest acquisition - Labrador

On February 3, 2005 the Company signed a letter of agreement with Hunter Exploration Group to acquire a 100% interest in the Michikamau Project property in Labrador. Consideration for this acquisition consists of:

- a) cash payment of \$27,960 representing a potentially refundable deposit with the Newfoundland government; and
- b) issuance of 200,000 units (one common share plus one common share warrant) of the Company.

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.