



ANNUAL CONSOLIDATED
FINANCIAL STATEMENTS

For the years ended
December 31, 2018 and 2017

(expressed in Canadian dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Belo Sun Mining Corp.

Opinion

We have audited the consolidated financial statements of Belo Sun Mining Corp., and its subsidiaries, (the Company), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017 and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2018 and December 31, 2017 in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis, but does not include the financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained the Management Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephen McCourt.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 29, 2019
Toronto, Ontario

Belo Sun Mining Corp.
Annual Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes	December 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		\$ 35,378,721	\$ 65,093,701
Prepaid expenses and sundry receivables	3	227,850	252,954
		35,606,571	65,346,655
Non-current assets			
Promissory notes receivable	6	10,280,381	-
Long-term deposits	7	1,637,040	-
Property, plant and equipment	7	19,421,635	16,963,696
Term investment	5	606,980	621,857
Total Assets		\$ 67,552,607	\$ 82,932,208
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities	8	\$ 4,457,940	\$ 8,270,601
Non-current liabilities			
Long-term liabilities	8	-	1,084,663
Total Liabilities		4,457,940	9,355,264
Equity			
Share capital	9	258,924,019	264,043,853
Share-based payments reserve	10	4,205,908	5,044,952
Contributed surplus	11	493,621	(680,651)
Accumulated other comprehensive income		1,790,608	729,648
Deficit		(202,319,489)	(195,560,858)
Total Equity		63,094,667	73,576,944
Total Liabilities and Equity		\$ 67,552,607	\$ 82,932,208
Commitments and contingencies	17		
Subsequent events	19		
Approved on behalf of the Directors: "Denis Arsenault"		"Mark Eaton"	
Director		Director	

- See accompanying notes to these Annual Consolidated Financial Statements -

Belo Sun Mining Corp.
Annual Consolidated Statements of Comprehensive Loss

(Expressed in Canadian dollars)

		Years ended December 31,	
	Notes	2018	2017
Expenses			
Salaries, wages and consulting fees	16	3,455,701	4,677,768
Legal and audit fees		230,546	650,172
General and administration		1,391,751	2,136,490
Depreciation	7	101,426	161,995
Share-based payments	10,11	1,088,706	1,942,728
Exploration and evaluation expenses	4	3,320,440	3,184,304
Engineering studies	4	-	142,991
Foreign exchange (income)/loss		(427,272)	362,405
Loss from operations		(9,161,298)	(13,258,853)
Interest income		1,097,427	770,061
Net loss for the year		(8,063,871)	(12,488,792)
Other Comprehensive Income/(Loss)			
Items that may be reclassified to profit/loss:			
Exchange differences on translating foreign operations		1,060,960	(703,255)
Comprehensive loss for the year		\$ (7,002,911)	\$(13,192,047)
Loss per share:			
Basic and diluted	13	\$ (0.02)	\$ (0.03)
Weighted average number of shares outstanding:			
Basic and diluted		453,953,668	465,589,915

- See accompanying notes to these Annual Consolidated Financial Statements -

Belo Sun Mining Corp.
Annual Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

		Years ended December 31,	
	Notes	2018	2017
Cash provided by (used in) operations:			
Net (loss)		\$ (8,063,871)	\$ (12,488,792)
Items not involving cash:			
Share-based payments	10,11	1,088,706	1,942,728
Depreciation	7	101,426	161,995
Interest income		(1,097,427)	(770,061)
Interest income received		786,779	719,625
Unrealized (gain)/loss on foreign exchange		(424,550)	190,366
Working capital adjustments:			
Change in prepaid expenses and sundry receivables		25,104	16,110
Change in accounts payables and accrued liabilities		(265,825)	(425,810)
Net cash (used in) operating activities		(7,849,658)	(10,653,839)
Investing activities			
Expenditures on property, plant and equipment	7	(1,757,475)	(5,829,786)
Promissory note receivable	6	(10,000,000)	-
Net cash (used in) investing activities		(11,757,475)	(5,829,786)
Financing activities			
Cost of issue		-	(532,754)
Repurchase and cancellation of shares	9	(5,119,834)	-
Purchase of shares held in trust for settlement of share-based payments	11	(4,961,668)	(226,094)
Net cash (used in) financing activities		(10,081,502)	(758,848)
Change in cash and cash equivalents		(29,688,635)	(17,242,473)
Cash and cash equivalents, beginning of the year		65,093,701	82,385,921
Effect of exchange rate on cash held		(26,345)	(49,747)
Cash and cash equivalents, end of the year		\$ 35,378,721	\$ 65,093,701
Cash and cash equivalents are comprised of:			
Cash in bank		\$ 35,377,616	\$ 64,643,310
Short-term money market instruments		\$ 1,105	\$ 450,391
		\$ 35,378,721	\$ 65,093,701

- See accompanying notes to these Annual Consolidated Financial Statements -

Belo Sun Mining Corp.
Annual Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Contributed Surplus	Share-Based Payments Reserve	Accumulated Other Comprehensive Income	Deficit	Total
Balance, December 31, 2017	465,589,915	\$ 264,043,853	\$ (680,651)	\$ 5,044,952	\$ 729,648	\$ (195,560,858)	\$ 73,576,944
Share-based compensation	-	-	-	466,196	-	-	466,196
Expiry of stock options	-	-	-	(1,305,240)	-	1,305,240	-
Purchase of shares held in trust for settlement of share-based payments	-	-	(4,961,668)	-	-	-	(4,961,668)
Value of DSUs transferred from liability	-	-	6,135,940	-	-	-	6,135,940
Repurchase and cancellation of shares (Note 9)	(22,958,000)	(5,119,834)	-	-	-	-	(5,119,834)
Other comprehensive income	-	-	-	-	1,060,960	-	1,060,960
Net loss	-	-	-	-	-	(8,063,871)	(8,063,871)
Balance, December 31, 2018	442,631,915	\$ 258,924,019	\$ 493,621	\$ 4,205,908	\$ 1,790,608	\$ (202,319,489)	\$ 63,094,667
Balance, December 31, 2016	465,589,915	\$ 264,043,853	\$ (454,557)	\$ 6,790,425	\$ 1,432,903	\$ (185,940,596)	\$ 85,872,028
Share-based compensation	-	-	-	1,123,057	-	-	1,123,057
Valuation allocation for expiry of options	-	-	-	(2,868,530)	-	2,868,530	-
Purchase of shares held in trust for settlement of share-based payments	-	-	(226,094)	-	-	-	(226,094)
Other comprehensive loss	-	-	-	-	(703,255)	-	(703,255)
Net loss	-	-	-	-	-	(12,488,792)	(12,488,792)
Balance, December 31, 2017	465,589,915	\$ 264,043,853	\$ (680,651)	\$ 5,044,952	\$ 729,648	\$ (195,560,858)	\$ 73,576,944

- See accompanying notes to these Annual Consolidated Financial Statements -

Belo Sun Mining Corp.
Notes to the Annual Consolidated Financial Statements
December 31, 2018 and 2017
(Expressed in Canadian dollars unless otherwise noted)

1. Nature of operations

Belo Sun Mining Corp. (“Belo Sun” or the “Company”), through its subsidiaries (Note 16), is a gold exploration and development company engaged in the exploration and development of properties located in Brazil. The Volta Grande Gold project moved to the development stage in 2017 (Note 4). Other projects are in the exploration and evaluation stage. The Company is a publicly listed company incorporated in the Province of Ontario. The Company’s shares are listed on the Toronto Stock Exchange and trade under the symbol “BSX”. The Company’s head office is located at 65 Queen Street West, 8th Floor, Toronto, Ontario, Canada, M5H 2M5.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and development and in which it has an interest, in accordance with industry standards for the current stage of exploration and development of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company’s continued existence is dependent upon the preservation of its interests in the underlying properties, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. The Company’s mining assets that are located outside of North America are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, expropriation and currency exchange fluctuations and restrictions.

2. Significant accounting policies

a) Statement of compliance

These annual consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), effective for the Company’s reporting for the year ended December 31, 2018. The policies as set out below were consistently applied to all the periods presented unless otherwise noted. The Board of Directors approved these annual consolidated financial statements for issue on March 28, 2019.

b) Basis of preparation

These annual consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies.

Belo Sun Mining Corp.
Notes to the Annual Consolidated Financial Statements
December 31, 2018 and 2017
(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

c) New and future accounting policies

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2018 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded.

New standards and amendments adopted:

IFRS 2 – Share-based Payment (“IFRS 2”) was amended by the IASB in June 2016 to clarify the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled. The Company has adopted this standard effective January 1, 2018. There was no impact to the Company’s opening accumulated deficit on January 1, 2018 and adoption of this standard did not result in any change to the carrying value of the Company’s share-based payments reserve.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in July 2014 and replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard introduced the expected loss method to replace the incurred loss model. The Company has adopted this standard effective January 1, 2018. Due to the nature of its financial instruments, the adoption of IFRS 9 had no impact on the opening accumulated deficit balance on January 1, 2018, and did not result in any change in the carrying values of the Company’s financial assets or liabilities.

Standards and amendments to be adopted:

IFRS 16 – Leases (“IFRS 16”) replaces IAS 17, Leases (“IAS 17”). The new model requires the recognition of almost all lease contracts on a lessee’s statement of financial position as a lease liability reflecting future lease payments and a ‘right-of-use asset’ with exceptions for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within operating and financing activities for the interest and principal portions, respectively. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company will apply IFRS 16 on its effective date retrospectively, with the cumulative effect of initially applying the standard as an adjustment to retained earnings and no restatement of comparative information. The Company has elected to measure its right of use assets at amounts equal to the associated lease liabilities and as such, no adjustment to opening retained earnings is expected. Upon adoption, the Company has elected to apply the available exemptions for short-term leases and leases of low-value assets. The Company has also elected to apply the practical expedient whereby leases whose term ends within 12 months of the date of the initial application would be accounted for in the same way as short-term leases. The Company has not yet completed its evaluations of the effect of adopting of this standard and the impact it may have on its consolidated financial statements.

Belo Sun Mining Corp.
Notes to the Annual Consolidated Financial Statements
December 31, 2018 and 2017
(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

d) Principals of consolidation

(i) Subsidiaries

All entities in which the Company has a controlling interest (Note 16) are fully consolidated from the date that control commences until the date that control ceases. Control exists when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

(ii) Transactions eliminated on consolidation

Intercompany balances and any unrealized gains and losses or income and expenses arising from intercompany transactions are eliminated in preparing the consolidated financial statements.

e) Significant accounting judgments, estimates and assumptions

The preparation of these annual consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. These annual consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the annual consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, on a prospective basis. The revision may affect current or both current and future periods.

Information about critical judgments and estimates in applying accounting policies, and areas where assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following areas:

- **Impairment of property, plant and equipment**

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations. When an indication of impairment loss or a reversal of impairment loss exists, the recoverable amount of the individual asset must be estimated. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs must be determined.

In the process of measuring expected future cash flows, management makes assumptions about future operating results, such as future production (proven and probable reserves), estimated future commodity prices, operating costs, capital and site restoration expenses and estimated future foreign exchange rates. As these assumptions relate to future events and circumstances, actual results may be different from estimated results.

Belo Sun Mining Corp.
Notes to the Annual Consolidated Financial Statements
December 31, 2018 and 2017
(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

- Classification of DSU obligation
Determining if the present DSU obligation to settle in cash requires management's judgement to determine the appropriate classification as liabilities or equity. See Note 11.
- Recognition of deferred tax assets
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company reassesses unrecognized income tax assets at each reporting period.
- Title to land
In assessing the recognition of land acquired with deferred payment terms as an asset, management must make an assumption as to whether the title of the land has passed. Management has determined that the Company has obtained title to the land upon execution of the land purchase agreements as outlined within the agreements themselves.
- Share-based payments
Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. As at December 31, 2018, the valuation of the Deferred Share Units ("DSUs") (Note 11) uses the assumption that they will be settled in shares (as at December 31, 2017: expected to be settled in cash).
- Assessment of the project stage for mineral properties and activities
In determining whether the Company is in the exploration and evaluation stage or the development stage, management must make an assessment as to whether the technical feasibility and commercial viability of extracting the mineral resource are demonstrable. Management assesses several considerations including technical studies performed by consultants and the status of licences to make this assessment. Effective February 2, 2017, management's assessment was that the Company has moved into the development stage on the Volta Grande project as the Company has received its construction licence and has awarded a contract for the first phase of Engineering, Procurement and Construction (EPC), despite the interim suspension of the licence (Note 4).
- Estimation of asset lives and depreciation and amortization
Depreciation expenses are allocated based on assumed asset lives and depreciation rates. Should the asset life or depreciation rate differ from the initial estimate, an adjustment would be made in the statement of comprehensive loss.

Belo Sun Mining Corp.
Notes to the Annual Consolidated Financial Statements
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(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

- Valuation of promissory notes receivable
Estimating the fair value of the promissory notes receivable requires the use of assumptions, the most significant being the discount rate.
- Collectability of promissory notes receivable
Management makes an assessment of whether the promissory notes receivable are collectable for each recipient based on payment history and financial condition. These estimates are continuously evaluated and updated.
- Determination of functional currency
Under IFRS, each entity within the Company has its results measured using the currency of the primary economic environment in which the entity operates (the “functional” currency). Judgment is necessary in assessing each entity’s functional currency. The Company considers the currency of expenses and outflows, as well as financing activities as part of its decision-making process.
- Contingencies
Refer to Note 17.

f) Presentation and functional currency

The Company’s annual consolidated financial statements are presented in Canadian dollars. The Company’s functional and presentation currency is the Canadian dollar. The Company’s subsidiaries’ functional currency is the United States dollar. References to R\$ refer to the Brazilian Real.

g) Foreign currency translation

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At closing date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the closing date exchange rate. Non-monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the historical rate effective on the date of the transactions. All foreign currency adjustments are expensed, apart from adjustments on borrowing in foreign currencies, constituting a hedge for the net investment in a foreign entity. These adjustments are allocated directly to equity until the divestiture of the net investment.

Financial statements of subsidiaries for which the functional currency is not the Canadian dollar are translated into Canadian dollars as follows: all asset and liability accounts are translated at the period-end exchange rate and all earnings and expense accounts and cash flow statement items are translated at average exchange rates for the period. The resulting translation gains and losses are recorded as exchange differences on translating foreign operations in accumulated other comprehensive income (“AOCI”).

h) Cash and cash equivalents

Cash and cash equivalents consists of cash in banks, short-term money market instruments, call deposits and other highly liquid investments with initial maturities of three months or less. Investments in securities, investments with initial maturities greater than three months without an early redemption feature and bank accounts subject to restrictions, other than restrictions due to regulations specific to a country or activity sector (exchange controls, etc.) are not presented as cash equivalents but as financial assets.

2. Significant accounting policies (continued)

i) Derivative financial instruments

The Company does not use derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Company does not hold or issue derivative financial instruments for trading purposes.

j) Property, plant and equipment

(i) Assets owned by the Company

Property, plant and equipment are carried at historical cost less any accumulated depreciation and impairment losses. Historical cost includes the acquisition cost as well as the costs directly attributable to bring the asset to the location and condition necessary for its use in operations. Depreciation is computed using the straight-line method based on the estimated useful life of the assets. Useful life is reviewed at the end of each reporting period.

(ii) Subsequent costs

The Company recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. All other costs are recognized in the statement of comprehensive loss as an expense as incurred.

(iii) Mining assets under construction

When a mining project reaches the development phase, subsequent costs are capitalized to mine development costs in property, plant and equipment. The development expenditures are capitalized net of proceeds from sale of ore extracted during the development phase.

Mining assets under construction consist of property, plant and equipment costs incurred in the course of development and are not depreciated. On completion of construction or development, costs are transferred to property, plant and equipment and/or mining properties as appropriate based on the following criteria:

- Production capacity achieved;
- Recovery grade;
- Completion of reasonable period of testing of the mine plant and equipment;
- Stage of completion of development work;
- Completion of the planned capital expenditures.

Belo Sun Mining Corp.
Notes to the Annual Consolidated Financial Statements
December 31, 2018 and 2017
(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

(iv) Depreciation

Depreciation is charged to the statement of comprehensive loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- Vehicles 5 years
- Furniture and office equipment 5 to 25 years
- Mining equipment 10 years

k) Exploration and evaluation expenditures

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include acquisition costs of mineral property rights, property option payments and exploration and evaluation activities (including care and maintenance costs).

Once a project has been established as commercially viable, technically feasible and the decision to proceed with development has been approved, related development expenditures incurred thereafter are capitalized. This includes costs incurred in preparing the site for mining operations, which are recorded in mining assets under construction in property, plant and equipment.

l) Impairment of non-financial assets

When events or changes in the economic environment indicate a risk of impairment to property, plant and equipment, an impairment test is performed to determine whether the carrying amount of the asset or group of assets under consideration exceeds its or their recoverable amount. Recoverable amount is defined as the higher of an asset's fair value (less costs of disposal) and its value in use. Value in use is equal to the present value of future cash flows expected to be derived from the use and sale of the asset.

m) Financial Instruments

On January 1, 2018, the Company adopted IFRS 9. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and replaced the guidance in IAS 39 that relates to the classification and measurement of financial instruments. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial instruments for those that were recognized at the date of application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

Belo Sun Mining Corp.
Notes to the Annual Consolidated Financial Statements
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(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

IFRS 9 establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through profit or loss. The Company determines the classification of the financial assets at initial recognition. The basis of classification depends on the Company's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change for liabilities is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income (loss) rather than in net earnings. Investments in equity instruments are required to be measured by default at fair value through profit or loss. However, on the day of acquisition, the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as fair value through other comprehensive income.

The Company has assessed the classification and measurement of its financial assets and financial liabilities under IFRS 9 and has summarized the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 in the following table:

	Financial instrument classification	
	Under IAS 39	Under IFRS 9
Financial assets		
Cash	Fair Value through Profit and Loss	Amortized cost
Cash equivalents	Fair Value through Profit and Loss	Amortized cost
Promissory notes receivable	Amortized cost	Amortized cost
Long-term deposits	Amortized cost	Amortized cost
Term investment	Fair Value through Profit and Loss	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Amortized cost	Amortized cost

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- it is held with the objective of collecting contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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2. Significant accounting policies (continued)

The fair value of quoted investments is determined by reference to market prices at the close of business on the statement of financial position date. Where there is no active market, fair value is determined using valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis; and pricing models. Financial instruments that are measured at fair value subsequent to initial recognition are grouped into a hierarchy based on the degree to which the fair value is observable as follows:

- Level 1 fair value measurements are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At each balance sheet date, on a forward-looking basis, the Company assesses the expected credit losses associated with its financial assets carried at amortized cost and Fair Value through Other Comprehensive Income ("FVOCI"). For the impairment of financial assets, a loss allowance for expected credit losses is recognized in Other Comprehensive Income ("OCI") for financial assets measured at FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The impairment model does not apply to FVTPL instruments. The expected credit losses are required to be measured through a loss allowance at an amount equal to the 12- month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date) or full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument). A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition.

A financial asset is derecognized when either the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party. If neither the rights to receive cash flows from the asset have expired nor the Company has transferred its rights to receive cash flows from the asset, the Company will assess whether it has relinquished control of the asset or not. If the Company does not control the asset then derecognition is appropriate.

A financial liability is derecognized when the associated obligation is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in net earnings.

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2. Significant accounting policies (continued)

n) Interest income

Interest income is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

o) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the period during which the employee becomes unconditionally entitled to equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled share-based payments reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

The Company also has a deferred share unit ("DSU") plan. The plan allows for the settlement of DSUs in cash or in shares of the Company at the election of the Company. In 2017, the Company recorded the DSU obligation as a liability given the intention to settle in cash. In 2018, the Company changed its expectation of settlement to settle DSU's in shares by purchasing its own shares which are held in trust to settle DSUs, and as a result, removing any present obligation to settle in cash, now records the value of the DSU's as equity. Any shares purchased and held in treasury for the purposes of settling the DSUs are recorded as a reduction of contributed surplus.

p) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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2. Significant accounting policies (continued)

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

q) Provisions

Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

As at December 31, 2018 and 2017, there were no provisions recorded.

3. Prepaid expenses and sundry receivables

	December 31, 2018	December 31, 2017
Amounts receivables and other advances	\$ 25,134	\$ 46,950
Reimbursable court fees pending appeal	56,352	48,346
HST receivable	111,158	120,672
Prepaid insurance	35,206	36,986
	<u>\$ 227,850</u>	<u>\$ 252,954</u>

The Company paid fees in prior years with respect to appeal proceedings which are expected to be reimbursed. During the year ended December 31, 2018, the Company lost some of their appeals resulting in the expense of R\$43,354 (\$15,239). The Company expects to be reimbursed the balance, R\$92,663 (\$32,571) (2017: R\$127,664 (\$48,346)), upon successful judgment. The Company also made a deposit of R\$67,656 (\$23,781) with respect to a Agencia Nacional de Mineracao (“ANM”) lawsuit which is expected to be refunded upon successful judgement.

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4. Mineral property development and exploration and development

The Company has determined that it has moved into the development stage for its Volta Grande Project upon receiving its construction license in February 2017 and awarding a contract for the first phase of EPC, despite the interim suspension of the license received in April 2017. The Company appealed the suspension and, in December 2017, received notice that the suspension would be upheld until an indigenous study was completed in accordance with regulatory guidelines. Since then, the Company's focus has been on completing the indigenous study and limited exploration work.

The Volta Grande Gold Project comprises 4 mine concessions submitted, 4 applications for public tender, 52 exploration permits, and 22 exploration permit extensions submitted and to be submitted in 2019, covering a total area of 185,498 hectares; it is located in municipalities including Senador José Porfírio, Anapu, Vitória do Zingu and Pacajá, in the southern region of Pará State in northern Brazil. The Volta Grande Project is located on the Xingu River, north of the Carajás mineral province, approximately 60 km southeast of the city of Altamira. Development costs have been capitalized effective February 2, 2017. The Company continues to incur costs that are not related to the development of the project, and these are expensed to the consolidated statement of comprehensive loss as exploration and evaluation expenses. Exploration and evaluation expenditures, including engineering expenses prior to the capitalization decision, expensed immediately in the consolidated statement of comprehensive loss for the year ended December 31, 2018 amounted to \$3,320,440 (December 31, 2017: \$3,327,295). An amount of \$52,287 was capitalized to Property, plant and equipment during the year ended December 31, 2018 (December 31, 2017: \$5,738,800) related to development costs.

The Company's Patrocino project is in the exploration and evaluation stage. This gold project is situated in the Para State and includes approximately 19,801 hectares. The property is subject to a 1.5% net smelter royalty and a sliding scale payment during the first two years of production from the property. The payment ranges from 606 ounces of gold assuming 100,000 ounces of proven and probable reserves to 12,121 ounces of gold assuming 1.2 million proven and probable reserve ounces. The Company is currently assessing its options with respect to the project including, but not limited to, joint-venture scenarios, earn-out arrangements, and further development by Belo Sun.

5. Term investment

The investment consists of a term deposit with Banco do Brasil SA to fund the potential amounts owing to Companhia de Pesquisa de Recursos Minerais ("CPRM"). As at December 31, 2018, the balance in this account was R\$1,726,827 (\$606,980) (December 31, 2017: R\$1,642,084 (\$621,857)) and the Company earned 6.10% in interest for the year ended December 31, 2018 (December 31, 2017: 9.74%). The Company intends to renew the term deposit on maturity because it is security against the potential amount owing to the CPRM (Note 8), a Brazilian state-owned company to which the Company is committed to paying royalties if a mineable deposit on the Volta Grande Property is put into production.

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6. Promissory notes receivable

In April 2018, certain directors and officers of the Company (“the Supporting Directors”) agreed to acquire an aggregate of 29,850,746 common shares of the Company at a price of \$0.335 per share by a private purchase from an existing shareholder for the purposes of supporting the Company’s share price and further align their interests with those of the Company’s shareholders. The Supporting Directors each acquired the number of common shares as follows: Stan Bharti 12,932,835 common shares; Peter Tagliamonte 12,932,835 common shares; Denis Arsenault 2,985,076 common shares; Mark Eaton 1,000,000 common shares.

To facilitate the Supporting Directors with the foregoing purchases, the Company loaned them an aggregate amount of \$10,000,000. Unsecured promissory notes have been entered into with each of the Supporting Directors for their respective loans. Under the terms of the promissory notes, the Company will receive a per annum interest rate of LIBOR plus 1%, payable on each one-year anniversary of the loans. The principal amount of the loans will be due and payable, together with all accrued and unpaid interest thereon, on April 23, 2020. Upon the sale of any shares of the Company acquired with the principal by the recipient, a portion of the principal equal to the amount of the proceeds realized from such sale shall become immediately due. Given the credit worthiness of the recipients, the Company believes credit risk is remote and has not recorded an expected loss.

As at December 31, 2018, the Company recognized a carrying value of \$10,280,381 with respect to these promissory notes. Interest income of \$280,381 was accrued for the year ended December 31, 2018.

7. Property, plant and equipment

<i>Cost</i>	Vehicles	Furniture & equipment	Mining equipment	Mine assets under construction	Land	Total
Balance at December 31, 2016	\$564,120	\$ 1,830,470	\$ 737,592	\$ -	\$10,599,095	\$13,731,277
Additions	-	61,532	29,453	5,738,800	-	5,829,785
FX adjustment	(58,329)	(149,425)	(61,701)	-	(697,522)	(966,977)
Balance at December 31, 2017	505,791	1,742,577	705,344	5,738,800	9,901,573	18,594,085
Additions	-	3,047	-	52,287	2,771,191	2,826,525
Reallocated to long-term deposits	-	-	-	(1,609,678)	-	(1,609,678)
FX adjustment	(117,506)	(394,494)	(167,434)	132,668	1,512,713	965,947
Balance at December 31, 2018	\$388,285	\$ 1,351,130	\$ 537,910	\$ 4,314,077	\$14,185,477	\$20,776,879
<i>Accumulated depreciation and impairment</i>						
Balance at December 31, 2016	\$529,358	\$ 495,509	\$ 621,445	\$ -	\$ -	\$ 1,646,312
Charge for the year	33,184	98,144	30,667	-	-	161,995
FX adjustment	(56,751)	(54,871)	(66,296)	-	-	(177,918)
Balance at December 31, 2017	505,791	538,782	585,816	-	-	1,630,389
Charge for the period	-	78,226	23,200	-	-	101,426
FX adjustment	(117,506)	(121,633)	(137,432)	-	-	(376,571)
Balance at December 31, 2018	\$388,285	\$ 495,375	\$ 471,584	\$ -	\$ -	\$ 1,355,244
Net book value as at December 31, 2017	\$ -	\$ 1,203,795	\$ 119,528	\$ 5,738,800	\$ 9,901,573	\$16,963,696
Net book value as at December 31, 2018	\$ -	\$ 855,755	\$ 66,326	\$ 4,314,077	\$14,185,477	\$19,421,635

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7. Property, plant and equipment (continued)

During the year ended December 31, 2018, the Company acquired a 3,000 hectare land package for R\$7,000,000 (\$2,771,191). The Company made payments of R\$4,490,949 (\$1,702,098) against this purchase as at December 31, 2018, with a balance owing of R\$2,509,051 (\$881,931) payable in instalments.

During the year ended December 31, 2018, the Company amended its agreement to purchase a Semi-Autogenous Grinding (“SAG”) mill and a letter of credit was issued by the vendor. The credit of US\$1,200,000 (\$1,637,040) will be applied against the purchase of a new SAG mill from the vendor. As a result, the carrying value of the advance on the mill, which was originally recorded to Mine assets under construction, has been reallocated to Long-term deposits.

Since the mining property is in the development stage, the mine assets under construction are not amortized.

8. Accounts payable and accrued liabilities

SHORT TERM	December 31, 2018	December 31, 2017
Mineral properties suppliers and contractors	\$ 371,622	\$ 721,842
Accrued royalties (Note 17(a))	2,154,183	2,256,410
Land acquisition costs payable (Note 7)	881,931	-
Property taxes	632,881	523,122
ANM taxes	82,251	50,063
Corporate payables	256,852	178,398
DSU liability (Note 11)	-	4,482,766
Audit and other accruals	78,220	58,000
TOTAL	\$ 4,457,940	\$ 8,270,601

LONG TERM	December 31, 2018	December 31, 2017
DSU liability (Note 11)	\$ -	\$ 1,084,663

9. Share capital

As at December 31, 2018 and 2017, the Company’s authorized number of common shares was unlimited without par value and an unlimited number of special shares. The special shares have the same features as the common shares with the exception that the special shares take preference over the common shares in the event of liquidation, dissolution or winding up of the Company. The special shares are entitled to the same dividend rights as common shares. No special shares are outstanding.

	Number of Shares	Amount
Balance, December 31, 2016 and 2017	465,589,915	\$ 264,043,853
Repurchase and cancellation of shares	(22,958,000)	(5,119,834)
Balance, December 31, 2018	442,631,915	\$ 258,924,019

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9. Share capital

In June 2018, the Company completed the purchase and cancellation of 22,958,000 of its common shares at a price of \$0.22 under its Normal Course Issuer Bid (“NCIB”) using the block purchase exemption. The maximum number of common shares that may be purchased for cancellation pursuant to the NCIB is that number of common shares that represents 5% of the issued and outstanding common shares of the Company. Based on the 465,589,915 common shares issued and outstanding as at the commencement of the NCIB, the maximum number of shares to be purchased and cancelled would be 23,279,495. The Company may purchase an additional 321,495 common shares under the NCIB. The Company paid \$69,074 in commissions related to the repurchase of its common shares.

The Company’s Board of Directors believed that the underlying value of the Company was not reflected in the current market price of its common shares at that time, and had thus concluded that the repurchase and cancellation of common shares pursuant to the NCIB constituted an appropriate use of financial resources and would be in the best interest of the Company’s shareholders.

10. Share-based payments reserve

Stock options

The Company has adopted a Floating Stock Option Plan (the “Plan”), whereby the number of common shares reserved for issuance under the Plan is equivalent to up to 9% of the issued and outstanding shares of the Company. In accordance with the terms of the Plan, officers, non-independent directors, employees and consultants of the Company may be granted options to purchase common shares at exercise prices determined at the time of grant. Options under the Plan which have been exercised or which have expired shall be available for subsequent grants. The option vesting terms are determined at the discretion of the Board of Directors.

Each employee share option converts into one common share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

	Number of Options	Weighted average exercise prices	Value of options
December 31, 2016	23,603,000	\$0.52	\$ 6,790,425
Value of vesting options	-	-	1,123,057
Expired/cancelled	(3,733,667)	\$1.14	(2,868,530)
December 31, 2017	19,869,333	\$0.40	\$ 5,044,952
Value of vesting options	250,000	\$0.23	466,196
Expired/cancelled	(2,784,000)	\$0.61	(1,305,240)
December 31, 2018	17,335,333	\$0.36	\$ 4,205,908

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10. Share-based payments reserve (continued)

The following stock options were in existence as at December 31, 2018:

Number outstanding	Number exercisable	Grant date	Expiry date	Exercise price	Expected volatility	Black-Scholes inputs		Risk-free interest rate
						Expected life (yrs)	Expected dividend yield	
4,955,000	4,955,000	19-Nov-14	19-Nov-19	\$ 0.12	86%	5	0%	1.53%
6,890,000	6,890,000	6-Apr-15	6-Apr-20	\$ 0.22	86%	5	0%	0.76%
550,000	550,000	8-Jun-15	8-Jun-20	\$ 0.22	85%	5	0%	1.02%
4,690,333	4,690,333	14-Nov-16	14-Nov-21	\$ 0.85	83%	5	0%	0.96%
250,000	250,000	15-Jun-18	15-Jun-23	\$ 0.23	75%	5	0%	2.08%
17,335,333	17,335,333							

Fair value of share options granted in the period:

During the year ended December 31, 2018, 250,000 stock options were granted and an accrual for vesting options was recorded resulting in stock-based compensation expense of \$466,196 for the year ended December 31, 2018 (December 31, 2017: no options granted and a vesting expense of \$1,123,057). The weighted average grant date fair value of the options granted during the year ended December 31, 2018 was \$0.14. The weighted average life of the outstanding options at December 31, 2018 is 1.64 years (December 31, 2017: 2.40 years).

11. Contributed surplus

Deferred Share Unit Incentive Plan

In 2016, the Company approved and adopted a Deferred Share Unit (“DSU”) incentive plan. In accordance with the terms of the plan, officers, directors and employees of the Company may be granted DSUs. Each vested DSU held shall be redeemed by the Company at the time that the holder ceases to be an officer, director or employee of the Company, where the value of the DSU shall be equal to the market value of the Company’s shares at that time. The DSUs can be redeemed, at the election of the Company, in cash or in shares of the Company, either held in treasury (subject to shareholder approval), or purchased in the secondary market by a trustee. If the holder of a DSU ceases to be an officer, director or employee of the Company prior to vesting, other than in the event of a change of control, the DSUs shall be deemed cancelled. In the event of a change of control, or termination without cause, each DSU shall automatically vest and be redeemed.

In April 2018, the Company purchased, through an independent trustee, 14,700,633 shares of the Company from the secondary market at a cost of \$4,961,668 (year ended December 31, 2017: 259,500 shares at a cost of \$226,094) with the intent of using these shares to satisfy the DSU obligations when they become due. The Company is the beneficiary of the shares held and the Company has full control of these shares. Previously, the Company had been settling DSUs in cash. As a result of this change, the estimated fair value of the vested DSUs as well as an accrual for unvested DSUs on the date of change was reclassified from accrued liabilities to equity. The estimated fair value recognized was \$0.37 per unit, based on the market value of the Company’s shares on the date of change. Further vesting charges are and will be applied against contributed surplus effective the date of change.

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11. Contributed surplus (continued)

As at December 31, 2018, 15,609,133 shares are held in trust at a total recorded value of \$5,642,319 (December 31, 2017: 908,500 shares at a value of \$680,651) which is included in contributed surplus.

DSU activity during the period:

	Number of DSUs
<u>December 31, 2016</u>	<u>12,969,000</u>
Granted	5,260,000
Paid	(402,500)
Forfeited	(512,500)
<u>December 31, 2017</u>	<u>17,314,000</u>
Granted	133,000
Paid	-
Forfeited	(86,250)
<u>December 31, 2018</u>	<u>17,360,750</u>

On January 2, 2018, 133,000 DSUs were granted to a director of the Company, where one-third vested immediately on grant, one-third vests on January 2, 2019 and the final third vests on January 2, 2020. As a result of an officer leaving the Company during the period, 86,250 unvested DSUs were forfeited.

On January 2, 2017, 5,260,000 DSU's were granted to directors, officers, employees and consultants of the Company, where one-third vested immediately on grant, one-third vested on January 2, 2018 and the final third vests on January 2, 2019.

The following table displays the vesting activity for outstanding DSUs:

	Vested	Unvested	Total
<u>December 31, 2016</u>	<u>3,242,250</u>	<u>9,726,750</u>	<u>12,969,000</u>
Vested, new DSUs	1,315,000	3,945,000	5,260,000
Vested, previously granted DSUs	3,249,750	(3,249,750)	-
Paid	(402,500)	-	(402,500)
Forfeited	-	(512,500)	(512,500)
<u>December 31, 2017</u>	<u>7,404,500</u>	<u>9,909,500</u>	<u>17,314,000</u>
Vested, new DSUs	44,333	88,667	133,000
Vested, previously granted DSUs	4,328,500	(4,328,500)	-
Forfeited	-	(86,250)	(86,250)
<u>December 31, 2018</u>	<u>11,777,333</u>	<u>5,583,417</u>	<u>17,360,750</u>

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11. Contributed surplus (continued)

Anticipated future vesting:

January 2, 2019	1,281,833
May 19, 2019	3,019,750
January 2, 2020	1,281,834
	<u>5,583,417</u>

During the year ended December 31, 2018, \$622,510 was recorded as stock-based compensation expense related to vested DSUs on the consolidated statements of comprehensive loss (December 31, 2017: \$819,671). Of the stock-based compensation expense, amounts related to movements in fair value (up to the date of the reclassification to equity) and vesting are reflected below.

	Years ended December 31,	
	2018	2017
Change related to vesting	\$971,461	\$2,766,337
Movements in fair value	(348,951)	(1,946,666)
	<u>\$622,510</u>	<u>\$819,671</u>

12. Operating segments

Geographical information

The Company operates in Canada where its head office is located and in Brazil where its exploration and development properties are located. Information about the Company's assets by geographical location is detailed below.

	Current assets	Property, plant and equipment	Other non- current assets	Total Assets
<u>December 31, 2018</u>				
Canada	\$ 35,179,394	\$ 7,921	\$ 11,917,421	\$ 47,104,736
Brazil	427,177	19,413,714	606,980	20,447,871
	<u>\$ 35,606,571</u>	<u>\$ 19,421,635</u>	<u>\$ 12,524,401</u>	<u>\$ 67,552,607</u>
<u>December 31, 2017</u>				
Canada	\$ 64,702,013	\$ 12,162	\$ -	\$ 64,714,175
Brazil	644,642	16,951,534	621,857	18,218,033
	<u>\$ 65,346,655</u>	<u>\$ 16,963,696</u>	<u>\$ 621,857</u>	<u>\$ 82,932,208</u>

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13. Loss per share

Basic loss per share is calculated by dividing the loss available to common shareholders by the weighted average number of common shares outstanding in the period. Diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding share options, warrants and contracts to be settled in shares, in the weighted average number of common shares outstanding during the period. In the Company's case, diluted loss per share is the same as basic loss per share as the effects of including all outstanding options, warrants and contracts to be settled in shares would be anti-dilutive.

14. Financial instruments

Financial assets and financial liabilities as at December 31, 2018 and 2017 were classified as follows:

December 31, 2018	Assets at amortized cost	Assets at fair value through profit/loss	Liabilities at amortized cost	Total
Cash and cash equivalents	\$ 35,378,721	\$ -	\$ -	\$ 35,378,721
Promissory notes receivable	10,280,381	-	-	10,280,381
Term investment	606,980	-	-	606,980
Accounts payable and accrued liabilities	-	-	4,457,940	4,457,940

December 31, 2017	Assets at amortized cost	Assets at fair value through profit/loss	Liabilities at amortized cost	Total
Cash and cash equivalents	\$ 65,093,701	\$ -	\$ -	\$ 65,093,701
Term investment	621,857	-	-	621,857
Accounts payable and accrued liabilities	-	-	3,787,835	3,787,835

A fair value hierarchy prioritizes the methods and assumptions used to develop fair value measurements for those financial assets where fair value is recognized on the statement of financial position. These have been prioritized into three levels.

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – Inputs for the asset or liability that are not based on observable market data.

The carrying value of accounts payable and accrued liabilities approximates fair value due to their short-term nature.

Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment.

The Company's risk exposures and their impacts on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures for managing risk during the year ended December 31, 2018.

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14. Financial instruments (continued)

Credit risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's primary counterparties related to its cash and cash equivalents and term investment carry an investment grade rating as assessed by external rating agencies. The Company maintains all of its cash and cash equivalents and term investment with major Canadian and Brazilian financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. The Company's promissory notes are held by directors of the Company. Management has assessed the credit risk associated with these promissory notes, and based on the credit-worthiness of the parties involved, the Company has assessed a low risk credit risk.

The Company's maximum exposure to credit risk at the statement of financial position date is the carrying value of cash and cash equivalents, promissory notes receivable and term.

Liquidity risk

The Company manages liquidity risk by maintaining adequate cash and cash equivalent balances. The Company continuously monitors and reviews both actual and forecasted cash flows, and also matches the maturity profile of financial assets and liabilities.

As at December 31, 2018, the Company had current assets of \$35,606,571 to settle current liabilities of \$4,457,940. Approximately \$3,500,000 of the Company's financial liabilities as at December 31, 2018 have contractual maturities of less than 30 days and are subject to normal trade terms. Of this amount, approximately \$2,150,000 has been payable for over 180 days.

Market risk

(a) Interest rate risk

The Company's cash and cash equivalents are subject to interest rate cash flow risk as they carry variable rates of interest. The Company's interest rate risk management policy is to purchase highly liquid investments with a term to maturity of one year or less on the date of purchase.

Based on cash and cash equivalent balances on hand at December 31, 2018, a 0.1% change in interest rates could result in a corresponding change in net loss of approximately \$35,000 (December 31, 2017 - \$65,000).

(b) Currency risk

As the Company operates on an international basis, foreign exchange risk exposures arise from transactions and balances denominated in foreign currencies. The Company's foreign currency risk arises primarily with respect to the United States dollar and Brazilian Real. Fluctuations in the exchange rates between these currencies and the Canadian dollar could have a material effect on the Company's business, financial condition and results of operations. The Company does not engage in any hedging activity to mitigate this risk.

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14. Financial instruments (continued)

A strengthening of \$0.01 in the United States dollar against the Brazilian Real would have increased net loss by approximately \$87,000 for the year ended December 31, 2018 (December 31, 2017 - \$53,000). A strengthening of \$0.01 in the Canadian dollar against the United States dollar would have decreased other comprehensive income by approximately \$22,000 for the year ended December 31, 2018 (December 31, 2017 - \$32,000).

15. Capital management

The Company includes cash and equity, comprised of issued common shares, share-based payment reserve, contributed surplus and deficit, in the definition of capital. The Company's objectives when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company manages its capital structure and makes adjustments to it based on the funds available to the Company in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management but rather relies on the expertise of the Company's management and consultants to sustain future development of the business.

The Company's Volta Grande property is in the development stage and, accordingly, the Company is dependent upon external financings to fund activities. In order to carry out planned engineering, test work, advancement and development of the mining projects, and pay for administrative costs, the Company will spend working capital and expects to raise the additional funds from time to time as required.

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company. There were no changes in the Company's approach to capital management during the year ended December 31, 2018. The Company is not subject to externally imposed capital requirements.

16. Related party disclosures

The annual consolidated financial statements include the financial statements of the Company and the subsidiaries at their respective ownership listed in the following table.

	Country of incorporation	% equity interest
Belo Sun Mineracao Ltda	Brazil	100
Intergemas Mineracao e Industrailizacao Ltda	Brazil	100
Aubras Mineracao Ltda	Brazil	98
Oca Mineracao Ltda	Brazil	100
Sun Exploracao Mineral Ltda.	Brazil	100

During the year ended December 31, 2018 and 2017, the Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

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16. Related party disclosures (continued)

	Purchases of goods/services	
	Years ended	
	December 31,	
	2018	2017
2227929 Ontario Inc.	\$ 497,170	\$ 459,658
Forbes & Manhattan, Inc.	312,000	575,000
Troilus Gold Corp.	4,157	-
Directors' promissory notes interest	(280,381)	-
Les Consultants Geo Habilis	-	12,600

The Company shares office space with other companies who may have common officers and directors. The costs associated with the use of this space, including the provision of office equipment and supplies, are administered by 2227929 Ontario Inc. to whom the Company pays a monthly fee of \$40,000, which increased from \$30,000 effective April 2017. 2227929 Ontario Inc. does not have any officers or directors in common with the Company.

Mr. Stan Bharti, a director of the Company, is the Executive Chairman of Forbes & Manhattan, Inc., a corporation that provides strategic planning and business development services to the Company. Forbes & Manhattan, Inc. charges a monthly consulting fee of \$25,000. During the year ended December 31, 2018, the Company accrued bonuses of \$12,000 to Mr. Bharti through Forbes & Manhattan, Inc. (December 31, 2017: \$275,000).

Mr. Stephane Amireault, an officer of the Company, controls Les Consultants Geo Habilis, a company that provides geological services to the Company from time to time.

The Company and Troilus Gold Corp. ("Troilus") share common directors and officers, including Mr. Peter Tagliamonte, Mr. Bruce Humphrey, Mr. Denis Arsenault and Mr. Ian Pritchard. Transactions during the period between the Company and Troilus included expense reimbursements. See Note 19.

The following balances included in the Company's accounts were outstanding at the end of the reporting period:

	Amounts owed by related parties		Amounts owed to related parties	
	31-Dec-18	31-Dec-17	31-Dec-18	31-Dec-17
Directors and officers of the Company	\$ 10,280,381	\$ -	\$ 56,882	\$ 82,537
2227929 Ontario Inc.	-	-	17,871	351
Forbes & Manhattan, Inc.	-	-	12,000	-
Troilus Gold Corp	-	-	1,743	-

Amounts owed by related parties reflect the promissory notes entered into with directors of the Company in April 2018 (see Note 6).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior periods for expected credit loss in respect of the amounts owed by related parties.

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16. Related party disclosures (continued)

Compensation of key management personnel of the Company

The remuneration of directors and other members of key management personnel during the period were as follows:

	Years ended December 31,	
	2018	2017
Short-term benefits	\$ 2,336,101	\$ 3,470,666
Share-based payments	348,027	1,149,489
DSU expense	605,969	828,397
	<u>\$ 3,290,097</u>	<u>\$ 5,448,553</u>

In accordance with IAS 24 Related Party Disclosures, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any directors (executive and non-executive) of the Company.

17. Commitments and contingencies

1. Under a renegotiated agreement with CPRM in March 2008, the Company maintains an interest-bearing term deposit to cover the future royalty payments, starting March 2008. As at December 31, 2018, no royalty payments have been paid. See notes 5 and 8.
2. The Company is party to certain management contracts. These contracts require that additional payments of up to \$15,100,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is uncertain and it is not probable that there will be any outflow of resources to settle the commitment, the contingent payments have not been reflected in these annual consolidated financial statements. Minimum commitments remaining under these contracts were approximately \$800,000 all due within one year.
3. The Federal Constitution of Brazil has established that the States, municipalities, federal district and certain agencies of the federal administration are entitled to receive royalties for the exploitation of mineral resources by holders of mining concessions (including extraction permits). The royalty rate for gold is currently 1.5% - Federal law 13,540/17 - arising from the sale of the mineral product, less the sales taxes of the mineral product. No royalties are currently due.
4. The Company is, from time to time, involved in various claims and legal proceedings. The Company cannot reasonably predict the likelihood or outcome of these activities. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reasons thereof, will have a material effect on the financial condition or future results of operations. As at December 31, 2018, no amounts have been accrued related to such matters.

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17. Commitments and contingencies (continued)

5. The Company's mining, exploration and development activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public safety, health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

18. Income taxes

The following table reconciles income taxes calculated at a combined Canadian federal and provincial tax rate with income tax expense in these audited annual consolidated financial statements.

	2018	2017
Loss before income taxes	\$ 8,063,871	\$ 12,488,792
Statutory rate	26.50%	26.50%
Expected income tax recovery	\$ 2,136,926	\$ 3,309,530
Change in unrecognized deferred tax assets	698,800	(1,129,600)
Non-deductible expenses and permanent differences	(371,178)	(560,403)
Change in foreign exchange rates	(2,777,910)	(2,073,776)
Effect of foreign tax rates and other	313,362	454,249
Income tax expense	\$ -	\$ -

The significant components of the Company's deferred income tax assets are as follows:

	2018	2017
Deferred income tax assets and liabilities:		
Capital and non-capital tax losses carried forward	\$ 17,042,900	\$ 15,953,300
Capital assets	(1,146,800)	(396,500)
Unused foreign exploration and evaluation expenses	25,892,100	26,682,900
Share issue costs	491,200	738,500
Net deferred income tax assets and liabilities	42,279,400	42,978,200
Unrecognized deferred tax assets	(42,279,400)	(42,978,200)
Deferred income tax asset (liability)	\$ -	\$ -

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18. Income taxes (continued)

As at December 31, 2018, the Company has Canadian non-capital losses carried forward for income tax purposes available to reduce taxable income in future years of \$46,151,500 expiring as follows:

2026	\$	481,900
2027		1,083,600
2028		869,700
2029		664,700
2030		2,166,200
2031		2,778,900
2032		5,485,200
2033		6,917,700
2034		4,899,500
2035		5,893,000
2036		5,559,400
2037		5,677,700
2038		3,674,000
	\$	<u>46,151,500</u>

19. Subsequent events

In January 2019, the Company purchased 3,000,000 common shares of Troilus Gold Corp. for \$1,929,620, including commissions, an average price per share of \$0.643. See Note 16. In February, 2019, the Company sold these shares at an average price of \$0.659 per share including commissions.