



CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

For the three months ended
March 31, 2018 and 2017

unaudited

(expressed in Canadian dollars)

Belo Sun Mining Corp.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Belo Sun Mining Corp.
Condensed Interim Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes	March 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		\$ 61,891,267	\$ 65,093,701
Prepaid expenses and sundry receivables	3	218,066	252,954
		62,109,333	65,346,655
Non-current assets			
Property, plant and equipment	6	20,134,028	16,963,696
Term investment	4	648,748	621,857
Total Assets		\$ 82,892,109	\$ 82,932,208
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 9,994,958	\$ 8,270,601
Non-current liabilities			
Long-term liabilities	7	869,497	1,084,663
		10,864,455	9,355,264
Equity			
Share capital		264,043,853	264,043,853
Shares held in trust for settlement of share-based payments	8	(680,651)	(680,651)
Share-based payments reserve	8	5,147,547	5,044,952
Accumulated other comprehensive income		1,048,898	729,648
Deficit		(197,531,993)	(195,560,858)
Total Equity		72,027,654	73,576,944
Total Liabilities and Equity		\$ 82,892,109	\$ 82,932,208
Commitments and contingencies	14		
Subsequent events	15		
Approved on behalf of the Directors: "Denis Arsenault"			
Director		"Mark Eaton"	
		Director	

Belo Sun Mining Corp.
Condensed Interim Consolidated Statements of Comprehensive Loss

(Expressed in Canadian dollars)

		Three months ended March 31,	
	Notes	2018	2017
Expenses			
Salaries, wages and consulting fees	13	980,119	2,139,523
Legal and audit fees		86,992	256,676
General and administration		455,578	699,137
Depreciation		24,864	42,404
Share-based payments	8	(190,691)	4,425,543
Exploration and evaluation expenses	5	831,335	1,107,650
Engineering studies	5	-	142,991
Foreign exchange loss		13,793	210,478
Loss from operations		(2,201,990)	(9,024,402)
Interest income		230,855	185,559
Net loss for the period		(1,971,135)	(8,838,843)
Other Comprehensive Income:			
Items that may be reclassified to profit/loss			
Exchange differences on translating foreign operations		319,250	(86,532)
Comprehensive loss for the period		\$ (1,651,885)	\$ (8,925,375)
Loss per share:			
Basic and diluted	10	\$ (0.00)	\$ (0.02)
Weighted average number of shares outstanding:			
Basic and diluted		465,589,915	465,589,915

Belo Sun Mining Corp.
Condensed Interim Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

		Three months ended March 31,	
	Notes	2018	2017
Cash provided by (used in) operations:			
Net (loss)		\$ (1,971,135)	\$ (8,838,843)
Items not involving cash:			
Share-based payments	8	(190,691)	4,425,543
Depreciation		24,864	42,404
Interest income		(230,855)	(185,559)
Interest income received		221,194	173,118
Unrealized gain on foreign exchange		(81,196)	(2,002)
Working capital adjustments:			
Change in prepaid expenses and sundry receivables		34,888	(204,230)
Change in accounts payables and accrued liabilities		(192,173)	70,629
Net cash (used in) operating activities		(2,385,104)	(4,518,940)
Investing activities			
Expenditures on property, plant and equipment	6	(846,362)	(2,773,678)
Proceeds from sale of assets		-	(158,240)
Net cash (used in) investing activities		(846,362)	(2,931,918)
Financing activities			
Cost of issue		-	(532,754)
Purchase of shares held in trust for settlement of share-based payments		-	(226,094)
Net cash (used in) financing activities		-	(758,848)
Change in cash and cash equivalents		(3,231,466)	(8,209,706)
Cash and cash equivalents, beginning of the period		65,093,701	82,385,921
Effect of exchange rate on cash held		29,032	11,159
Cash and cash equivalents, end of the period		\$ 61,891,267	\$ 74,187,374
Cash and cash equivalents are comprised of:			
Cash in bank		\$ 61,886,949	\$ 73,705,513
Short-term money market instruments		\$ 4,318	\$ 481,861
		\$ 61,891,267	\$ 74,187,374

Belo Sun Mining Corp.
Condensed Interim Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Shares held in trust for settlement of share-based payments	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	-	-	-	102,595	-	-	102,595
Other comprehensive income	-	-	-	-	319,250	-	319,250
Net loss	-	-	-	-	-	(1,971,135)	(1,971,135)
Balance, March 31, 2018	465,589,915	\$ 264,043,853	\$ (680,651)	\$ 5,147,547	\$ 1,048,898	\$ (197,531,993)	\$ 72,027,654
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	-	-	-	342,306	-	-	342,306
Valuation allocation for expiry of options	-	-	-	(1,226,080)	-	1,226,080	-
Purchase of shares held in trust for settlement of share-based payments	-	-	(226,094)	-	-	-	(226,094)
Other comprehensive income	-	-	-	-	(86,532)	-	(86,532)
Net loss	-	-	-	-	-	(8,838,843)	(8,838,843)
Balance, March 31, 2017	465,589,915	\$ 264,043,853	\$ (680,651)	\$ 5,906,651	\$ 1,346,371	\$ (193,553,359)	\$ 77,062,865

- See accompanying notes to these Condensed Interim Consolidated Financial Statements -

Belo Sun Mining Corp.
Notes to the Condensed Interim Consolidated Financial Statements
March 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 13), 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 5). 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 condensed interim consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). The policies applied in these condensed interim consolidated financial statements are based on International Financial Reporting Standards (“IFRS”) issued and outstanding as at March 31, 2018. The policies as set out in the Company’s Annual Consolidated Financial Statements for the twelve months ended December 31, 2017 were consistently applied to all the periods presented unless otherwise noted below. The Board of Directors approved these condensed interim consolidated financial statements for issue on May 10, 2018.

b) Basis of preparation

These condensed interim 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 Condensed Interim Consolidated Financial Statements
March 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 also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. 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 is currently evaluating the impact of the adoption of IFRS 16.

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

2. Significant accounting policies (continued)

d) Principles of consolidation

(i) Subsidiaries

All entities in which the Company has a controlling interest (Note 13) 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 condensed interim 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 condensed interim consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim 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.

• Impairment of property, plant and equipment (continued)

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 Condensed Interim Consolidated Financial Statements
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(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

• 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 March 31, 2018, the valuation of the Deferred Share Units ("DSUs") (Note 8) uses the assumption that they will 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 5).

• 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 Condensed Interim Consolidated Financial Statements
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(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

- 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 14.

f) Presentation and functional currency

The Company’s condensed interim 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.

3. Prepaid expenses and sundry receivables

	March 31, 2018	December 31, 2017
Amounts receivables and other advances	\$ 41,364	\$ 46,950
Reimbursable court fees pending appeal	49,687	48,346
HST receivable	102,776	120,672
Prepaid insurance	24,239	36,986
	\$ 218,066	\$ 252,954

The Company paid fees in prior years with respect to appeal proceedings which are expected to be reimbursed. During the three months ended March 31, 2018, no reimbursements were made to the Company with respect to these fees. The Company expects to be reimbursed the balance, R\$127,664 (\$49,687) (2017: R\$127,664,(\$48,346)), upon successful judgment.

4. 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 March 31, 2018, the balance in this account was R\$1,666,876 (\$648,748) (December 31, 2017: R\$1,642,084 (\$621,857)) and the Company earned 1.51% in interest for the three months ended March 31, 2018 (March 31, 2017: 3.00%). The Company intends to renew the term deposit on maturity because it is security against the potential amount owing to the CPRM (Note 7), 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.

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

5. Mineral property development and exploration and evaluation

The Company 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. During the three months ended March 31, 2018, the Company focused its efforts on the indigenous study, and therefore did not incur any development costs during the period. Costs related to the indigenous study and other site costs were expensed to the consolidated statement of comprehensive loss as exploration and evaluation expenses. Exploration and evaluation expenditures, including engineering costs prior to the capitalization decision, expensed immediately in the consolidated statement of comprehensive loss for the three months ended March 31, 2018 amounted to \$831,335 (March 31, 2017: \$1,250,641).

6. Property, plant and equipment

<i>Cost</i>	Vehicles	Furniture & equipment	Mining equipment	Mine assets under construction	Land	Total
Balance at December 31, 2017	505,791	1,742,577	705,344	5,738,800	9,901,573	18,594,085
Additions	-	1,780	-	-	2,839,232	2,841,012
Disposals	-	-	-	-	-	-
FX adjustment	(138,104)	(464,520)	(196,783)	42,207	673,021	(84,179)
Balance at March 31, 2018	367,687	1,279,837	508,561	5,781,007	13,413,826	21,350,918
<i>Accumulated depreciation and impairment</i>						
Balance at December 31, 2017	505,791	538,782	585,816	-	-	1,630,389
Charge for the period	-	19,114	5,750	-	-	24,864
Disposals	-	-	-	-	-	-
FX adjustment	(138,104)	(139,773)	(160,486)	-	-	(438,363)
Balance at March 31, 2018	\$367,687	\$ 418,123	\$ 431,080	\$ -	\$ -	\$ 1,216,890
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 March 31, 2018	\$ -	\$ 861,714	\$ 77,481	\$ 5,781,007	\$13,413,826	\$20,134,028

During the three months ended March 31, 2018, the Company acquired a 3,000 hectare land package for R\$7,000,000 (\$2,839,232). The Company made payments of R\$1,875,000 (\$844,582) against this purchase as at March 31, 2018, with R\$5,125,000 (\$1,994,650) payable in instalments over 120 days.

Since the mining property is in the development stage, the mine assets under construction are not amortized (Note 14(c)).

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

7. Accounts payable and accrued liabilities

SHORT TERM	March 31, 2018	December 31, 2017
Mineral properties suppliers and contractors	\$ 373,674	\$ 721,842
Accrued royalties (Note 14(a))	2,335,536	2,256,410
Land acquisition costs payable	1,994,650	-
Property taxes	568,416	523,122
Departamento Nacional de Producao Mineral	51,451	50,063
Corporate payables	272,584	178,398
DSU liability (Note 8)	4,350,647	4,482,766
Audit and other accruals	48,000	58,000
TOTAL	\$ 9,994,958	\$ 8,270,601

LONG TERM	March 31, 2018	December 31, 2017
DSU liability (Note 8)	\$ 869,497	\$ 1,084,663

8. Share-based payments reserve

Stock options

The Company amended its stock option compensation plan for executives and employees which was approved by shareholders at the Company's Annual General Meeting in June 2017. 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. 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. 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, 2017	19,869,333	\$0.40	\$ 5,044,952
Value of vesting options	-	-	102,595
Expired/cancelled	-	-	-
March 31, 2018	19,869,333	\$0.40	\$ 5,147,547

Belo Sun Mining Corp.
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8. Share-based payments reserve (continued)

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

Number outstanding	Number exercisable	Grant date	Expiry date	Exercise price	Expected volatility	Black-Scholes inputs	
						Expected life (yrs)	Expected dividend yield
200,000	200,000	9-Apr-13	9-Apr-18	\$ 1.14	118%	5	0%
1,753,000	1,753,000	19-Aug-13	19-Aug-18	\$ 0.71	118%	5	0%
5,055,000	5,055,000	19-Nov-14	19-Nov-19	\$ 0.12	86%	5	0%
7,520,000	7,520,000	6-Apr-15	6-Apr-20	\$ 0.22	86%	5	0%
550,000	550,000	8-Jun-15	8-Jun-20	\$ 0.22	85%	5	0%
4,791,333	3,194,222	14-Nov-16	14-Nov-21	\$ 0.85	83%	5	0%
19,869,333	18,272,222						

Fair value of share options granted in the period:

During the three months ended March 31, 2018, no stock options were granted however an accrual for vesting options was recorded resulting in stock-based compensation expense of \$102,595 for the three months ended March 31, 2018 (March 31, 2017: no options granted and a vesting expense of \$342,306). The weighted average life of the outstanding options at March 31, 2018 is 2.15 years (March 31, 2017: 2.90 years).

Deferred Share Unit Incentive Plan

The Company has 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.

During the three months ended March 31, 2018, the Company purchased, through an independent trustee, nil shares of the Company from the secondary market (three months ended March 31, 2017: 259,500 shares at a cost of \$226,094), which was recorded to shares held in trust for settlement of share-based payments. As at March 31, 2018, 908,500 shares are held in trust at a total recorded value of \$680,651 (December 31, 2017: 908,500 shares at a value of \$680,651). See Note 15.

Belo Sun Mining Corp.
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8. Share-based payments reserve (continued)

DSU activity during the period:

	Number of DSUs
December 31, 2017	17,314,000
Granted	133,000
Paid	-
Forfeited	-
March 31, 2018	17,447,000

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.

The following table displays the vesting activity for outstanding DSUs:

	Vested	Unvested	Total
December 31, 2017	7,404,500	9,909,500	17,314,000
Vested, new DSUs	44,333	88,667	133,000
Vested, previously granted DSUs	1,252,500	(1,252,500)	-
March 31, 2018	8,701,333	8,745,667	17,447,000

Anticipated future vesting:

May 19, 2018	3,076,000
January 2, 2019	1,296,833
May 19, 2019	3,076,000
January 2, 2020	1,296,833
	<u>8,745,667</u>

An amount of \$5,220,144 was recorded at March 31, 2018 (December 31, 2017: \$5,567,429) as a liability with respect to the value of these DSUs, which represents the market value at March 31, 2018 for vested DSUs as well as an accrual for unvested DSUs recognizing the services received to period end. The liability was allocated between current and long-term liabilities on the statements of financial position based on the vesting date.

During the three months ended March 31, 2018, a credit of (\$293,286) was recorded as stock-based compensation expense related to DSUs on the consolidated statements of comprehensive loss (March 31, 2017: an expense of \$4,083,237). Of the (\$293,286) stock-based compensation expense, (\$628,112) related to movements in fair value and \$334,826 related to vesting.

Belo Sun Mining Corp.
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9. 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>March 31, 2018</u>				
Canada	\$ 60,962,847	\$ 11,054	\$ -	\$ 60,973,901
Brazil	1,146,486	20,122,974	648,748	21,918,208
	<u>\$ 62,109,333</u>	<u>\$ 20,134,028</u>	<u>\$ 648,748</u>	<u>\$ 82,892,109</u>

10. 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.

11. Financial instruments

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

March 31, 2018	Other liabilities	Assets /(liabilities) at fair value through profit/loss	Total
Cash and cash equivalents	\$ -	\$ 61,891,267	\$ 61,891,267
Term investment	-	648,748	648,748
Accounts payable and accrued liabilities	5,644,311	-	5,644,311

The fair value of accounts payable and accrued liabilities approximates fair value due to the short-term nature of the financial instruments.

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11. Financial instruments (continued)

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.

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.

At March 31, 2018, financial instruments that are carried at fair value, consisting of cash and cash equivalents and term investment have been classified as Level 1 within the fair value hierarchy. There were no transfers between levels during the three months ended March 31, 2018.

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 three months ended March 31, 2018.

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 maximum exposure to credit risk at the statement of financial position date is the carrying value of cash and cash equivalents, term investment and sundry receivables.

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 March 31, 2018, the Company had current assets of \$62,108,333 to settle current liabilities of \$9,994,958. Approximately \$3,500,000 of the Company's financial liabilities as at March 31, 2018 have contractual maturities of less than 30 days and are subject to normal trade terms. Of this amount, approximately \$2,300,000 has been payable for over 180 days. As at March 31, 2018, the Company's DSU obligations were expected to be settled in cash at the time the holder ceases to be an officer, director or employee of the Company. Subsequent to the end of the quarter, it is anticipated that DSUs will be equity-settled. See Note 15.

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11. Financial instruments (continued)

Market risk

(a) Interest rate risk

The Company's 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 March 31, 2018, a 0.1% change in interest rates could result in a corresponding change in net loss of approximately \$62,000 (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.

A strengthening of \$0.01 in the United States dollar against the Brazilian Real would have increased net loss by approximately \$91,000 for the three months ended March 31, 2018 (March 31, 2017 - \$54,000). A strengthening of \$0.01 in the Canadian dollar against the United States dollar would have decreased other comprehensive income by approximately \$27,000 for the three months ended March 31, 2018 (March 31, 2017 - \$17,000).

12. Capital management

The Company includes cash and equity, comprised of issued common shares, share-based payment reserve 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.

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12. Capital management (continued)

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 three months ended March 31, 2018. The Company is not subject to externally imposed capital requirements.

13. Related party disclosures

The condensed interim 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

During the three months ended March 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.

	Purchases of goods/services Three months ended March 31,	
	2018	2017
2227929 Ontario Inc.	\$ 120,000	\$ 93,668
Forbes & Manhattan, Inc.	\$ 75,000	325,000
Les Consultants Geo Habilis	\$ -	3,600

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 three months ended March 31, 2018, the Company paid bonuses of \$nil to Mr. Bharti through Forbes & Manhattan, Inc. (March 31, 2017: \$250,000).

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.

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13. Related party disclosures (continued)

The following balances included in accounts payable and accrued liabilities were outstanding at the end of the reporting period:

	Amounts owed to related parties	
	31-Mar-18	31-Dec-17
Directors and officers of the Company	51,750	82,537
2227929 Ontario Inc.	-	351

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 bad or doubtful debts in respect of the amounts owed by related parties.

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:

	Three months ended March 31,	
	2018	2017
Short-term benefits	\$ 543,250	\$ 1,715,250
Share-based payments	98,498	306,543
DSU expense	(286,280)	3,779,544
	<u>\$ 355,468</u>	<u>\$ 5,801,337</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.

See Note 15.

14. Commitments and contingencies

- (a) 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 March 31, 2018, no royalty payments have been paid. See notes 4 and 7.
- (b) The Company is party to certain management contracts. These contracts require that additional payments of up to \$16,500,000 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 condensed interim consolidated financial statements. Minimum commitments remaining under these contracts were approximately \$825,000 all due within one year.

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14. Commitments and contingencies (continued)

- (c) The Company is party to an agreement to purchase a SAG mill. The Company will be required to make payments of US\$2,400,000 on July 1, 2018 and US\$3,600,000 on October 1, 2018 to satisfy the terms of this agreement.
- (d) 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.
- (e) 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 March 31, 2018, no amounts have been accrued related to such matters.
- (f) 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.

15. Subsequent events

In April 2017, certain directors and officers of the Company ("the Supporting Directors") have 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. With their current holdings of stock options and DSUs, assuming the exercise or conversion thereof into common shares, the aggregate holding of the Supporting Directors will be 13.96% on a semi-diluted basis.

To facilitate the Supporting Directors with the foregoing purchases, the Company loaned them an aggregate amount of \$10,000,000. Under the terms of the loans entered into with the Supporting Directors, 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 the date which is 24 months following the issuance of the loans. Unsecured promissory notes have been entered into with each of the Supporting Directors for their respective loans.

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15. Subsequent events (continued)

Also in April 2017, the Company purchased 14,700,700 of its shares in the secondary market for a cost of \$4,961,623 with the intent of using these shares to satisfy the DSU obligations when they become due.