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ANNUAL CONSOLIDATED  
FINANCIAL STATEMENTS

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For the years ended  
December 31, 2016 and 2015

*(expressed in Canadian dollars)*



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
**Belo Sun Mining Corp.**

We have audited the accompanying consolidated financial statements of Belo Sun Mining Corp. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive loss, cash flows, and changes in equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these 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.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Belo Sun Mining Corp. and its subsidiaries as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

*Collins Barrow Toronto LLP*

Licensed Public Accountants  
Chartered Professional Accountants  
March 28, 2017  
Toronto, Ontario

**Belo Sun Mining Corp.**  
**Annual Consolidated Statements of Financial Position**

**(Expressed in Canadian dollars)**

	Notes	December 31, 2016	December 31, 2015
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 82,385,921	\$ 9,459,780
Prepaid expenses and sundry receivables	3	269,064	186,416
		82,654,985	9,646,196
<b>Non-current assets</b>			
Land and equipment	6	12,084,967	10,768,285
Term investment	5	626,233	475,926
<b>Total Assets</b>		<b>\$ 95,366,185</b>	<b>\$ 20,890,407</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	7	\$ 8,270,985	\$ 3,947,200
<b>Non-current liabilities</b>			
Long-term liabilities	7	1,223,172	-
		9,494,157	3,947,200
<b>Equity</b>			
Share capital	8	264,043,853	178,773,178
Shares held in trust for settlement of share-based payments	9	(454,557)	-
Share-based payments reserve	9	6,790,425	9,099,780
Accumulated other comprehensive income		1,432,903	1,726,705
Deficit		(185,940,596)	(172,656,456)
<b>Total Equity</b>		<b>85,872,028</b>	<b>16,943,207</b>
<b>Total Liabilities and Equity</b>		<b>\$ 95,366,185</b>	<b>\$ 20,890,407</b>
Commitments and contingencies	15		
Subsequent events	17		
Approved on behalf of the Directors:			
<u>"Denis Arsenault"</u>		<u>"Mark Eaton"</u>	
Director		Director	

**Belo Sun Mining Corp.**  
**Annual Consolidated Statements of Comprehensive Loss**

**(Expressed in Canadian dollars)**

		Years ended December 31,	
	Notes	2016	2015
<b>Expenses</b>			
Salaries, wages and consulting fees	14	3,503,104	4,069,238
Legal and audit fees		125,680	122,687
General and administration		1,942,631	1,405,744
Depreciation		213,390	272,079
Share-based payments	9	5,999,962	1,728,000
Exploration and evaluation expenses	4	2,794,091	2,466,709
Engineering studies	4	727,038	1,138,747
Foreign exchange loss/(gain)		602,976	(664,635)
Loss from operations		(15,908,872)	(10,538,569)
Interest income		425,009	215,040
Gain on disposal of assets	6	5,734	12,662
Net loss for the year		(15,478,129)	(10,310,867)
<b>Other Comprehensive Income:</b>			
Items that may be reclassified to profit/loss			
Exchange differences on translating foreign operations		(293,802)	1,104,202
Comprehensive loss for the year		\$ (15,771,931)	\$ (9,206,665)
<b>Loss per share:</b>			
Basic and diluted	11	\$ (0.04)	\$ (0.03)
<b>Weighted average number of shares outstanding:</b>			
Basic and diluted		414,064,483	335,460,504

*Certain comparative figures have been reclassified to conform to the presentation in the current period.*

**Belo Sun Mining Corp.**  
**Annual Consolidated Statements of Cash Flows**  
**(Expressed in Canadian dollars)**

		Years ended December 31,	
	Notes	2016	2015
<b>Cash provided by (used in) operations:</b>			
<b>Net (loss)</b>		\$(15,478,129)	\$ (10,310,867)
Items not involving cash:			
Share-based payments	9	5,999,962	1,728,000
Depreciation		213,390	272,079
Interest income		(425,009)	(215,040)
Interest income received		365,366	172,740
Gain on sale of asset	6	(5,734)	(12,662)
Unrealized (gain)/loss on foreign exchange		(115,037)	95,379
Working capital adjustments:			
Change in prepaid expenses and sundry receivables		(82,648)	31,108
Change in accounts payables and accrued liabilities		1,133,900	(830,299)
<b>Net cash (used in) operating activities</b>		<b>(8,393,939)</b>	<b>(9,069,562)</b>
<b>Investing activities</b>			
Expenditures on land and equipment	6	(2,866,846)	(1,714,264)
Proceeds from sale of assets	6	5,734	33,493
<b>Net cash (used in) investing activities</b>		<b>(2,861,112)</b>	<b>(1,680,771)</b>
<b>Financing activities</b>			
Private placements	8	87,020,800	15,000,000
Cost of issue	7, 8	(4,085,770)	(30,050)
Exercise of options		1,648,780	9,600
Purchase of shares held in trust for settlement of share-based payments	9	(454,557)	-
<b>Net cash provided by financing activities</b>		<b>84,129,253</b>	<b>14,979,550</b>
Change in cash and cash equivalents		72,874,202	4,229,217
Cash and cash equivalents, beginning of the year		9,459,780	5,413,418
Effect of exchange rate on cash held		51,939	(182,855)
<b>Cash and cash equivalents, end of the year</b>		<b>\$ 82,385,921</b>	<b>\$ 9,459,780</b>
<b>Cash and cash equivalents are comprised of:</b>			
Cash in bank		\$ 82,101,187	\$ 8,748,653
Short-term money market instruments		\$ 284,734	\$ 711,127
		<b>\$ 82,385,921</b>	<b>\$ 9,459,780</b>

**Belo Sun Mining Corp.**

**Annual 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, 2015	359,642,915	\$ 178,773,178	\$ -	\$ 9,099,780	\$ 1,726,705	\$ (172,656,456)	\$ 16,943,207
Private placement	100,000,000	87,020,800	-	-	-	-	87,020,800
Cost of issue	-	(4,618,524)	-	-	-	-	(4,618,524)
Exercise of stock options	5,947,000	1,648,780	-	-	-	-	1,648,780
Valuation allocation for exercise of options	-	1,219,619	-	(1,219,619)	-	-	-
Valuation allocation for expiry of options	-	-	-	(2,193,989)	-	2,193,989	-
Stock-based compensation	-	-	-	1,104,253	-	-	1,104,253
Purchase of shares held in trust for settlement of share-based payments	-	-	(454,557)	-	-	-	(454,557)
Other comprehensive loss	-	-	-	-	(293,802)	-	(293,802)
Net loss	-	-	-	-	-	(15,478,129)	(15,478,129)
Balance, December 31, 2016	465,589,915	\$ 264,043,853	\$ (454,557)	\$ 6,790,425	\$ 1,432,903	\$ (185,940,596)	\$ 85,872,028
Balance, December 31, 2014	297,062,915	\$ 163,787,228	\$ -	\$ 10,335,113	\$ 622,503	\$ (165,302,522)	\$ 9,442,322
Private placement	62,500,000	15,000,000	-	-	-	-	15,000,000
Cost of issue	-	(30,050)	-	-	-	-	(30,050)
Exercise of stock options	80,000	9,600	-	-	-	-	9,600
Valuation allocation for exercise of options	-	6,400	-	(6,400)	-	-	-
Valuation allocation for expiry/cancellation of options	-	-	-	(2,956,933)	-	2,956,933	-
Stock-based compensation	-	-	-	1,728,000	-	-	1,728,000
Other comprehensive income	-	-	-	-	1,104,202	-	1,104,202
Net loss	-	-	-	-	-	(10,310,867)	(10,310,867)
Balance, December 31, 2015	359,642,915	\$ 178,773,178	\$ -	\$ 9,099,780	\$ 1,726,705	\$ (172,656,456)	\$ 16,943,207

- See accompanying notes to these Annual Consolidated Financial Statements -

**Belo Sun Mining Corp.**  
**Notes to the Annual Consolidated Financial Statements**  
**December 31, 2016 and 2015**  
(Expressed in Canadian dollars unless otherwise noted)

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**1. Nature of operations**

Belo Sun Mining Corp. (“Belo Sun” or the “Company”), through its subsidiaries (Note 14), is a gold exploration company engaged in the exploration of properties located in Brazil. 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, 8<sup>th</sup> 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 in which it has an interest, in accordance with industry standards for the current stage of exploration 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**

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, 2016. 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, 2017.

**a) 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, 2016 and 2015**  
(Expressed in Canadian dollars unless otherwise noted)

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**2. Significant accounting policies (continued)**

**b) 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, 2016 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. There was no material impact from the adoption of IAS 1.

IAS 16 – Property, Plant and Equipment and IAS 38 – Intangible Assets are applied retrospectively and clarify in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortization is the difference between the gross and carrying amounts of the asset. This policy will become effective for annual periods starting after, or on January 1, 2016. There was no material impact from the adoption of IAS 16.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). 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, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company is evaluating the potential impact of the adoption of IFRS 9.

IFRS 15 - Revenue from Contracts with Customers (“IFRS 15”) addresses how and when entities recognize revenue, as well as requires more detailed and relevant disclosures. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue - Barter Transactions Involving Advertising Services. The Section provides a single, principles based five-step model to be applied to all contracts with customers, with certain exceptions. The standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Company will assess the impact of adopting IFRS 15 prior to commencement of commercial production.



**Belo Sun Mining Corp.**  
**Notes to the Annual Consolidated Financial Statements**  
**December 31, 2016 and 2015**  
(Expressed in Canadian dollars unless otherwise noted)

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**2. Significant accounting policies (continued)**

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, with early adoption permitted if IFRS 15, Revenue from Contracts with Customers, is also applied. The Company is evaluating the impact of the adoption of IFRS 16.

**c) Principles of consolidation**

**(i) Subsidiaries**

All entities in which the Company has a controlling interest (Note 14) 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.

**d) 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:

• **Asset impairment charges**

In the determination of potential impairment charges, management evaluates indicators in accordance with IAS 36 – Impairment of Assets. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

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

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**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. The valuation of the DSUs (Note 9) 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 licenses to make this assessment. As at December 31, 2016, management's assessment was that the Company was still in the exploration and evaluation stage as the Company was waiting to receive its construction license before commencing development activity (Note 17).

• 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.

• 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 15.

**Belo Sun Mining Corp.**  
**Notes to the Annual Consolidated Financial Statements**  
**December 31, 2016 and 2015**  
(Expressed in Canadian dollars unless otherwise noted)

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**2. Significant accounting policies (continued)**

**e) 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.

**f) 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").

**g) 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.

**h) 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.

## **2. Significant accounting policies (continued)**

### **i) Land and equipment**

#### **(i) Assets owned by the Company**

Land 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 land 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) 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.

Once a project has been established as commercially viable, technically feasible and the decision to proceed with development has been approved, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production.

### **l) Impairment**

When events or changes in the economic environment indicate a risk of impairment to property 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.

**Belo Sun Mining Corp.**  
**Notes to the Annual Consolidated Financial Statements**  
**December 31, 2016 and 2015**  
(Expressed in Canadian dollars unless otherwise noted)

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**2. Significant accounting policies (continued)**

**m) Financial Assets**

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, (i.e., the date that the Company commits to purchase or sell the asset).

The Company's financial assets include cash and cash equivalents, sundry receivables and term investment.

Financial assets at fair value through profit or loss ("FVTPL"):

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets that are not part of an effective and designated hedging relationship. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the statements of comprehensive loss.

The Company's financial assets classified as FVTPL include cash and cash equivalents, and term investment.

Loans and receivables:

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method.

Sundry receivables are classified as loans and receivables.

De-recognition:

Financial assets are de-recognized when the contractual rights to receive cash flows from the assets expire or when the Company no longer retains substantially all of the risks and rewards of ownership and does not retain control over the financial asset. Any interest in such de-recognized financial assets that is created or retained by the Company is recognized as a separate asset or liability. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in the consolidated statement of operations and comprehensive loss.

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

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**2. Significant accounting policies (continued)**

**n) Impairment of financial assets**

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

**o) Financial liabilities**

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

The Company has classified accounts payable and accrued liabilities, and long-term liabilities as other financial liabilities.

De-recognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled 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 a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive loss.

**p) 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.

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

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**2. Significant accounting policies (continued)**

**q) 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 units ("DSU") plan. The plan allows for the settlement of DSUs in cash or in shares of the Company at the election of the Company. The fair value of the Company's DSUs is recognized using the liability method on the assumption that they will be settled in cash. Since the DSUs will be settled in cash, the fair value of the vested DSU's is revalued each period until settlement and any changes in fair value of the liability are recognized in the statements of comprehensive loss.

**r) 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.

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.

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**2. Significant accounting policies (continued)**

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.

**s) 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, 2016 and 2015, there were no provisions recorded.

**3. Prepaid expenses and sundry receivables**

	December 31, 2016	December 31, 2015
Amounts receivables and other advances	\$ 26,377	\$ 9,581
Reimbursable court fees pending appeal	52,662	49,490
HST receivable	174,440	99,640
Prepaid insurance	15,585	27,705
	<u>\$ 269,064</u>	<u>\$ 186,416</u>

The Company paid fees during 2015 and 2016 with respect to appeal proceedings. During the year ended December 31, 2016, Reais ("R\$) \$22,457 (\$7,910) was reimbursed to the Company with respect to these fees. The Company expects to be reimbursed the balance, R\$127,664 (\$52,662), upon successful judgment.



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#### **4. Exploration and evaluation expenses and engineering studies**

Exploration and evaluation expenditures and engineering studies expensed immediately in the consolidated statement of comprehensive loss for the year ended December 31, 2016 collectively amounted to \$3,521,129 (year ending December 31, 2015 - \$3,605,456).

Exploration and evaluation properties comprise the following:

a) Volta Grande, Para State, Brazil

The Volta Grande Gold Project comprises 4 mine concessions submitted, 48 exploration permits, 24 exploration permit extensions submitted and 7 exploration applications, covering a total area of 175,443 hectares; it is located in municipalities including Senador José Porfírio, Anapu, Vitória do Zingu and Pacajá, in the northern region of Pará State in northern Brazil. The Volta Grande Gold Project is located on the Xingu River, north of the Carajás mineral province, approximately 60 km southeast of the city of Altamira.

In 2012, the Company acquired surface rights for an area covering 1,734 hectares, which was comprised of three distinct properties – *Fazenda Galo de Ouro* covering 824.8 hectares, *Fazenda Ouro Verde* covering 503.6 hectares and *Fazenda Ressaca* covering 405.9 hectares.

The Company acquired various land packages during the years ended December 31, 2016 and 2015 totalling approximately 1,276 hectares.

b) Patrocino, Para State, Brazil

This gold project is situated in the Para State and includes approximately 18,669 hectares (2015 – 18,669 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, 2016, the balance in this account was R\$1,518,140 (\$626,233) (December 31, 2015: R\$1,362,123 (\$475,926)) and the Company earned 13.55% in interest for the year ended December 31, 2016 (December 31, 2015: 13.12%). The Company intends to renew the term deposit on maturity because it is security against the potential amount owing to the CPRM, 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. Land and equipment**

<i>Cost</i>	Vehicles	Furniture & equipment	Mining equipment	Land	Total
Balance at December 31, 2014	\$591,902	\$1,629,596	\$ 632,669	\$ 5,216,945	\$ 8,071,112
Additions	-	12,847	9,942	2,801,519	2,824,308
Disposals	(64,589)	(67,000)	(9,770)	-	(141,359)
FX adjustment	112,324	303,405	129,049	1,006,750	1,551,528
Balance at December 31, 2015	639,637	1,878,848	761,890	9,025,214	12,305,589
Additions	-	7,121	986	1,843,333	1,851,440
Disposals	(54,718)	-	-	-	(54,718)
FX adjustment	(20,798)	(55,499)	(25,285)	(269,452)	(371,034)
Balance at December 31, 2016	564,121	1,830,470	737,591	10,599,095	13,731,277
<i>Accumulated depreciation and impairment</i>					
Balance at December 31, 2014	402,923	295,915	440,675	-	1,139,513
Charge for the year	100,282	96,577	75,220	-	272,079
Disposal	(64,589)	(38,309)	(3,487)	-	(106,385)
FX adjustment	84,006	59,278	88,813	-	232,097
Balance at December 31, 2015	522,622	413,461	601,221	-	1,537,304
Charge for the year	78,178	94,907	40,305	-	213,390
Disposals	(54,718)	-	-	-	(54,718)
FX adjustment	(16,724)	(12,860)	(20,082)	-	(49,666)
Balance at December 31, 2016	\$529,358	\$ 495,508	\$ 621,444	\$ -	\$ 1,646,310
Net book value as at December 31, 2015	\$117,015	\$1,465,387	\$ 160,669	\$ 9,025,214	\$10,768,285
Net book value as at December 31, 2016	\$ 34,763	\$1,334,962	\$ 116,147	\$10,599,095	\$12,084,967

The Company sold a vehicle with a net book value of \$nil for gross proceeds of R\$15,000 (\$5,734) resulting in a gain on sale of assets of \$5,734 for the year ended December 31, 2016.

During the year ended December 31, 2015, the Company sold some computer and office equipment and a vehicle for gross proceeds of R\$80,000 (\$33,493). As a result of these disposals, a gain on disposal of assets of \$12,662 was recorded for the year ended December 31, 2015.

At December 31, 2016, R\$229,425 (\$94,638) is accrued with respect to land purchases (December 31, 2015: R\$3,177,000 (\$1,110,044)). This amount was paid in full subsequent to the end of the year.

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**7. Accounts payable and accrued liabilities and long-term liabilities**

<u>SHORT TERM</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Mineral properties suppliers and contractors	\$ 529,614	\$ 160,036
Accrued royalties (Note 15(a))	2,387,578	1,962,870
Land acquisition costs payable	94,638	1,110,044
Property taxes	563,163	334,805
Departamento Nacional de Producao Mineral	121,486	75,865
Corporate payables*	844,469	226,080
Accrual for DSUs (Note 9)	3,672,537	-
Audit and other accruals	57,500	77,500
<b>TOTAL</b>	<b>\$ 8,270,985</b>	<b>\$ 3,947,200</b>

<u>LONG TERM</u>	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Accrual for DSUs (Note 9)	\$ 1,223,172	\$ -

\*Included in this balance is \$532,754 of share issue costs related to the bought deal financing in 2016 (Note 8).

**8. Share Capital**

As at December 31, 2016 and 2015, 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.

In March 2016, the Company completed two private placement financings issuing 22,680,000 common shares of the Company at a price of \$0.53 per share for gross proceeds of \$12,020,400. The Company incurred costs related to this issue of \$35,618 for filing fees.

In July 2016, the Company closed a bought deal financing with a syndicate of underwriters whereby the Company issued 77,320,000 common shares of the Company at a price of \$0.97 per share for gross proceeds of \$75,000,400. The Company incurred costs related to this issue of \$4,582,906, which included a 5% underwriter fee as well as legal and filing fees.

In May 2015, the Company completed a private placement financing issuing 62,500,000 common shares of the Company at a price of \$0.24 per share for gross proceeds of \$15,000,000. The Company incurred costs related to this issue of \$30,050 for filing fees.

As well, during the year ended December 31, 2016, the Company issued 5,947,000 common shares upon the exercise of stock options generating \$1,648,780 in proceeds (December 31, 2015: 80,000 option exercised for common shares generating \$9,600 in proceeds)(Note 9).

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**9. Share-based payments reserve**

Stock options

The Company has a stock option compensation plan for executives and employees. In accordance with the terms of the plan, officers, 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 10% of the issued and outstanding shares of the Company from time to time. 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	TOTAL VALUE
December 31, 2014	23,178,000	\$0.62	\$ 10,335,113	\$ 10,335,113
Granted	11,520,000	\$0.22	1,728,000	1,728,000
Exercised	(80,000)	\$0.12	(6,400)	(6,400)
Expired/cancelled	(7,559,000)	\$0.53	(2,956,933)	(2,956,933)
December 31, 2015	27,059,000	\$0.47	\$ 9,099,780	\$ 9,099,780
Granted	4,958,000	\$0.85	1,104,253	1,104,253
Exercised	(5,947,000)	\$0.28	(1,219,619)	(1,219,619)
Expired/cancelled	(2,467,000)	\$1.31	(2,193,989)	(2,193,989)
<b>December 31, 2016</b>	<b>23,603,000</b>	<b>\$0.52</b>	<b>\$ 6,790,425</b>	<b>\$ 6,790,425</b>

The following stock options were in existence as at December 31, 2016:

Number outstanding	Number exercisable	Grant date	Expiry date	Exercise price	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
1,552,000	1,552,000	31-Jan-12	31-Jan-17	\$ 1.15	94%	5	0%	1.25%
100,000	100,000	14-Jun-12	14-Jun-17	\$ 1.17	94%	5	0%	1.28%
1,185,000	1,185,000	3-Jul-12	3-Jul-17	\$ 1.15	94%	5	0%	1.26%
730,000	730,000	10-Jul-12	10-Jul-17	\$ 1.15	94%	5	0%	1.18%
200,000	200,000	9-Apr-13	9-Apr-18	\$ 1.14	118%	5	0%	1.24%
1,753,000	1,753,000	19-Aug-13	19-Aug-18	\$ 0.71	118%	5	0%	1.98%
5,055,000	5,055,000	19-Nov-14	19-Nov-19	\$ 0.12	86%	5	0%	1.53%
7,520,000	7,520,000	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%
4,958,000	1,652,667	14-Nov-16	14-Nov-21	\$ 0.85	83%	5	0%	0.96%
23,603,000	20,297,667							

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**9. Share-based payments reserve (continued)**

Fair value of share options granted in the period:

During the year ended December 31, 2016, 4,958,000 stock options were granted to directors, officers, employees and consultants of the Company. These options vest over a period of two years, with one-third vesting on grant, one-third vesting one year from the date of grant, and the final third vesting two years from the date of grant. In comparison, 11,520,000 stock options were granted during the year ended December 31, 2015, all of which vested immediately. As a result, stock-based compensation expense of \$1,104,253 related to vested stock options was recorded for the year ended December 31, 2016 (December 31, 2015: \$1,728,000). The weighted average grant date fair value of the stock options granted during the current period is \$0.56 (December 31, 2015: \$0.15). Options were priced using the Black-Scholes option-pricing model. Expected volatility is based on the historical share price volatility over the past 5 years. The expected life of the option was calculated based on the history of option exercises. The weighted average life of the outstanding options at December 31, 2016 is 2.94 years (December 31, 2015: 3.27 years). The weighted average market price on the date of grant for options granted during the period was \$0.85 (December 31, 2015: \$0.22). The weighted average market price on the date of exercise of options during period was \$0.83 (December 31, 2015: \$0.245).

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 year ended December 31, 2016, the Company purchased, through an independent trustee, 649,000 shares of the Company from the secondary market at a cost of \$454,557, which was recorded to shares held in trust for settlement of share-based payments during 2016.

In May 2016, 12,969,000 DSUs were granted to directors, officers and employees of the Company, where one-quarter, or 3,242,250 DSUs, vested immediately on grant, and one-quarter each vest on May 2, 2017, 2018 and 2019 respectively. An amount of \$4,895,709 was recorded at December 31, 2016 as a liability with respect to the value of the DSUs, which represents the market value at December 31, 2016 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 year ended December 31, 2016, \$4,895,709 was recorded as stock-based compensation expense related to DSUs in the consolidated statements of comprehensive loss.

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**10. Operating segments**

*Geographical information*

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

	Current assets	Land and equipment	Other non-current assets	Total Assets
<u>December 31, 2016</u>				
Canada	\$ 82,252,656	\$ 9,855	\$ -	\$ 82,262,511
Brazil	402,329	12,075,112	626,233	13,103,674
	<u>\$ 82,654,985</u>	<u>\$ 12,084,967</u>	<u>\$ 626,233</u>	<u>\$ 95,366,185</u>
<u>December 31, 2015</u>				
Canada	\$ 8,840,538	\$ 12,802	\$ -	\$ 8,853,340
Brazil	805,658	10,755,483	475,926	12,037,067
	<u>\$ 9,646,196</u>	<u>\$ 10,768,285</u>	<u>\$ 475,926</u>	<u>\$ 20,890,407</u>

**11. 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.

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**12. Financial instruments**

Financial assets and financial liabilities as at December 31, 2016 and 2015 were classified as follows:

December 31, 2016	Other liabilities	Assets /(liabilities) at fair value through profit/loss	Total
Cash and cash equivalents	\$ -	\$ 82,385,921	\$ 82,385,921
Term investment	-	626,233	626,233
Accounts payable and accrued liabilities	4,598,448	-	4,598,448

December 31, 2015	Other liabilities	Assets /(liabilities) at fair value through profit/loss	Total
Cash and cash equivalents	\$ -	\$ 9,459,780	\$ 9,459,780
Term investment	-	475,926	475,926
Accounts payable and accrued liabilities	3,947,200	-	3,947,200

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

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 December 31, 2016, 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 year ended December 31, 2016 and 2015.

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, 2016.

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**12. Financial instruments (continued)**

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. 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 balance sheet date is the carrying value of cash and cash equivalents, term investment and sundry receivables.

Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet short-term financial obligations. 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, 2016, the Company had current assets of \$82,654,985 (2015: \$9,646,196) to settle current liabilities of \$8,270,985 (2015: \$3,947,200). Approximately \$3,850,000 of the Company's financial liabilities as at December 31, 2016 have contractual maturities of less than 30 days and are subject to normal trade terms. Of this amount, approximately \$2,400,000, which relates to the accrued royalties, has been payable for over 180 days. The Company's DSU obligations are expected to be settled in cash at the time the holder ceases to be an officer, director or employee of the Company.

Market risk

(a) Interest rate risk

Interest rate risk is the risk that an investment's value will change due to a change in the level of interest rates. 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 December 31, 2016, a 0.1% change in interest rates could result in a corresponding change in net loss of approximately \$82,000 (December 31, 2015 - \$9,400).



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**12. Financial instruments (continued)**

(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 decreased net income by approximately \$65,000 for the year ended December 31, 2016 (December 31, 2015 - \$68,000). A strengthening of \$0.01 in the Canadian dollar against the United States dollar would have decreased other comprehensive income by approximately \$20,000 for the year ended December 31, 2016 (December 31, 2015 - \$17,000).

**13. Capital management**

The Company includes equity, comprised of issued share capital, shares held in trust for settlement of share-based payments, 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 and exploration 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 properties are in the advanced exploration 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 2016. The Company is not subject to externally imposed capital requirements.

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**14. 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

During the year ended December 31, 2015, the Company dissolved Belo Sun Mining (Barbados) Corp.

During the years ended December 31, 2016 and 2015, 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	
	Years ended	
	December 31,	
	2016	2015
2227929 Ontario Inc.	\$ 363,655	\$ 360,000
Forbes & Manhattan, Inc.	\$ 497,500	512,500
Les Consultants Geo Habilis	-	27,600
Falcon Metais Ltda.	-	58,907

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 \$30,000. 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, 2016, the Company paid bonuses of \$197,500 to Mr. Bharti through Forbes & Manhattan, Inc. (December 31, 2015: \$212,500).

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

Mr. Helio Diniz, a former director of the Company, is an officer of Falcon Metais Ltda., a company that provided exploration and administration services to the Company in Brazil, including bookkeeping and secretarial services.

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**14. 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-Dec-16	31-Dec-15
Directors and officers of the Company	133,813	158,305
2227929 Ontario Inc.	-	17,091

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:

	Years ended December 31,	
	2016	2015
Short-term benefits	\$ 2,751,833	\$ 2,965,518
Share-based payments	988,883	1,557,000
DSU expense	4,558,230	-
	<u>\$ 8,298,946</u>	<u>\$ 4,522,518</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.

**15. Commitments and contingencies**

- (a) Under a successfully renegotiated agreement with CPRM in March 2008, the Company maintains an interest bearing term deposit to cover the future royalty payments, starting June 30, 2008. As at December 31, 2016, no royalty payments have been paid (Note 5).
- (b) The Company is party to certain management contracts. These contracts require that additional payments of up to \$20,800,000 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 consolidated financial statements. Minimum commitments remaining under these contracts were approximately \$787,000 all due within one year.

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**15. Commitments and contingencies (continued)**

- (c) 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, 2016 and December 31, 2015, no amounts have been accrued related to such matters.
- (d) The Company's mining and exploration 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.

**16. Income taxes**

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

	2016	2015
Loss before income taxes	\$ 15,478,129	\$ 10,310,867
Statutory rate	26.50%	26.50%
Expected income tax recovery	\$ 4,101,704	\$ 2,732,380
Change in unrecognized deferred tax assets	(7,307,100)	3,685,800
Non-deductible expenses and permanent differences	(1,677,557)	(617,748)
Expired losses	-	(154,232)
Change in foreign exchange rates	4,588,791	(6,054,325)
Effect of foreign tax rates and other	294,162	408,125
Income tax expense	\$ -	\$ -

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**16. Income taxes (continued)**

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

Deferred income tax assets and liabilities:		
Capital and non-capital tax losses carried forward	\$ 12,893,100	\$ 11,599,000
Capital assets	10,500	13,100
Unused foreign exploration and evaluation expenses	27,959,200	22,762,600
Share issue costs	985,800	166,800
Other liability	-	-
Net deferred income tax assets and liabilities	41,848,600	34,541,500
Unrecognized deferred tax assets	(41,848,600)	(34,541,500)
Deferred income tax asset (liability)	\$ -	\$ -

As at December 31, 2016, the Company has non-capital losses carried forward for income tax purposes available to reduce taxable income in future years of \$32,109,000 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	4,900,500
2035	5,893,000
2036	867,600
	<u>\$ 32,109,000</u>

As at December 31, 2016, Belo Sun Mineracao Ltda. (Brazil) has non-capital losses carried forward of approximately CAD\$12,895,592 that carry forward indefinitely. These losses only offset 30% of taxable income in each subsequent year.

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**17. Subsequent events**

Subsequent to the end of the year, 5,260,000 DSUs were granted to directors, officers and employees of the Company. In addition, 259,500 shares were purchased for \$226,094 and held in trust for the settlement of share-based payments.

On January 31, 2017, 1,552,000 options expired unexercised.

Subsequent to the end of the year, the Company received its construction license, and awarded a contract for the first phase of Engineering, Procurement and Construction of the Volta Grande Project. These events have triggered the reassessment of the project stage. Going forward, the Company will consider itself to be in the development stage for the project and will start capitalizing project costs. Shortly after receiving the construction license, the Company received an order issuing a temporary 180-day injunction halting certain work related to the construction license. The Company is appealing this decision.