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ANNUAL CONSOLIDATED  
FINANCIAL STATEMENTS

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For the twelve months ended  
December 31, 2012 and 2011

## 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, 2012 and December 31, 2011 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 audits 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, 2012 and December 31, 2011 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 Accountants  
March 27, 2013  
Toronto, Ontario

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

**(Expressed in Canadian dollars)**

	Notes	December 31, 2012	December 31, 2011
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 45,977,241	\$ 32,415,945
Prepaid expenses and sundry receivables	3	885,413	392,823
		46,862,654	32,808,768
<b>Non-current assets</b>			
Property and equipment	6	6,394,504	1,146,689
Term investment	5	524,131	548,968
<b>Total Assets</b>		<b>\$ 53,781,289</b>	<b>\$ 34,504,425</b>
<b>Liabilities and Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	7	\$ 4,825,228	\$ 2,164,777
Finance leases	8	26,397	60,264
Current taxes	17	7,091	7,091
		4,858,716	2,232,132
<b>Non-current liabilities</b>			
Finance leases	8	10,313	6,481
Deferred taxes	17	7,091	14,182
		4,876,120	2,252,795
<b>Equity</b>			
Share capital	9	157,177,638	96,276,107
Share-based payments reserve	10	13,270,262	8,782,612
Accumulated other comprehensive loss		(497,425)	(99,707)
Deficit		(121,045,306)	(72,707,382)
<b>Total Equity</b>		<b>48,905,169</b>	<b>32,251,630</b>
<b>Total Liabilities and Equity</b>		<b>\$ 53,781,289</b>	<b>\$ 34,504,425</b>
Commitments and contingencies	16		
Approved on behalf of the Directors:			
<u>"Peter Tagliamonte"</u>		<u>"Mark Eaton"</u>	
Director		Director	

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

**(Expressed in Canadian dollars)**

	Notes	Twelve months ended December 31,	
		2012	2011
<b>Expenses</b>			
Management fees paid to directors	15	\$ 559,803	\$ 412,484
Salaries, wages and consulting fees		2,933,486	1,390,178
Legal fees		30,360	41,376
Audit fees		185,320	91,699
General and administration		2,218,312	1,699,171
Amortization		256,082	127,059
Share-based payments	10	7,164,550	4,380,758
Exploration and evaluation expenses	4	29,694,408	21,745,781
Engineering studies	4	6,110,388	2,674,085
Foreign exchange loss		169,998	1,654,411
Loss from operations		(49,322,707)	(34,217,002)
Interest income		1,137,926	1,347,043
Unrealized loss on derivative liability	4	(223,985)	-
Gain on sale of asset	6	1,132	-
Net loss for the year		(48,407,634)	(32,869,959)
Exchange differences on translating foreign operations		(397,718)	18,920
Comprehensive loss for the year		\$(48,805,352)	\$(32,851,039)
<b>Loss per share</b>			
	12		
Basic		\$ (0.21)	\$ (0.17)
Diluted		\$ (0.21)	\$ (0.17)
<b>Weighted average number of shares outstanding:</b>			
Basic and diluted		234,592,706	193,116,806

**Belo Sun Mining Corp.**  
**Consolidated Statements of Cash Flows**

**(Expressed in Canadian dollars)**

		Twelve months ended December 31,	
	Notes	2012	2011
<b>Cash provided by (used in) operations:</b>			
<b>Net (loss)</b>		\$(48,407,634)	\$(32,869,959)
Items not involving cash:			
Share-based payments	10	7,164,550	4,380,758
Amortization		256,082	127,059
Gain on sale of asset	6	(1,132)	-
Interest income		(1,137,926)	(1,347,043)
Interest income received		1,100,476	1,296,975
Unrealized loss on derivative liability		223,985	-
Unrealized loss on foreign exchange		819,507	1,523,123
Working capital adjustments:			
Change in prepaid expenses and sundry receivables		(492,590)	(198,154)
Change in accounts payables and accrued liabilities		210,054	1,090,369
Change in income taxes		(7,091)	(7,091)
<b>Net cash (used) by operating activities</b>		<b>(40,271,719)</b>	<b>(26,003,963)</b>
<b>Investing activities</b>			
Expenditures on property and equipment		(3,283,980)	(695,340)
Proceeds from sale of asset		26,801	-
<b>Net cash (used) in investing activities</b>		<b>(3,257,179)</b>	<b>(695,340)</b>
<b>Financing activities</b>			
Proceeds from issuance of shares / units		50,008,000	51,842,000
Share issuance costs		(2,974,643)	(3,515,942)
Exercise of warrants/options		11,260,984	5,216,628
Finance lease payments		(67,623)	(92,199)
<b>Net cash provided by financing activities</b>		<b>58,226,718</b>	<b>53,450,487</b>
Change in cash and cash equivalents		14,697,820	26,751,184
Cash and cash equivalents, beginning of the year		32,415,945	7,127,226
Effect of exchange rate on cash held		(1,136,524)	(1,462,465)
<b>Cash and cash equivalents, end of the year</b>		<b>\$ 45,977,241</b>	<b>\$ 32,415,945</b>
<b>Cash and cash equivalents are comprised of:</b>			
Cash in bank		\$ 36,786,718	\$ 12,290,783
Short-term money market instruments		\$ 9,190,523	\$ 20,125,162
		<u>\$ 45,977,241</u>	<u>\$ 32,415,945</u>
<b>Supplemental Information:</b>			
Accounts payable and accrued liabilities related to the acquisition of land		\$ 2,450,403	\$ -

- See accompanying notes to these Annual Consolidated Financial Statements -

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

(Expressed in Canadian dollars)

	Number of Shares	Share Capital	Share-Based Payments Reserve	Accumulated Other Comprehensive (Loss)	Deficit	Total
Balance, December 31, 2011	207,604,334	\$ 96,276,107	\$ 8,782,612	\$ (99,707)	\$ (72,707,382)	\$32,251,630
Public offering (Note 9)	35,720,000	50,008,000	-	-	-	50,008,000
Share issuance costs	-	(2,974,643)	-	-	-	(2,974,643)
Exercise of stock options	1,070,600	650,134	-	-	-	650,134
Valuation allocation on exercise of stock options	-	376,105	(376,105)	-	-	-
Exercise of warrants	21,515,600	10,610,850	-	-	-	10,610,850
Value of warrants granted on exercise of units	-	(293,900)	293,900	-	-	-
Valuation allocation on exercise of warrants	-	2,524,985	(2,524,985)	-	-	-
Valuation allocation for expiry of warrants and options	-	-	(69,710)	-	69,710	-
Comprehensive (loss)	-	-	7,164,550	(397,718)	(48,407,634)	(41,640,802)
Balance, December 31, 2012	265,910,534	\$ 157,177,638	\$ 13,270,262	\$ (497,425)	\$ (121,045,306)	\$48,905,169
Balance, December 31, 2010	149,158,834	\$ 40,829,667	\$ 6,401,610	\$ (118,627)	\$ (39,933,424)	\$ 7,179,226
Public offering (Note 9)	45,080,000	51,842,000	-	-	-	51,842,000
Share issuance costs	-	(3,515,942)	-	-	-	(3,515,942)
Value of warrants granted on exercise of units	-	(237,000)	237,000	-	-	-
Exercise of stock options	2,659,000	1,397,078	-	-	-	1,397,078
Valuation allocation on exercise of stock options	-	958,656	(958,656)	-	-	-
Exercise of warrants	10,706,500	3,819,550	-	-	-	3,819,550
Valuation allocation on exercise of warrants	-	1,182,098	(1,182,098)	-	-	-
Valuation allocation for expiry of warrants and options	-	-	(96,001)	-	96,001	-
Comprehensive (loss)	-	-	4,380,757	18,920	(32,869,959)	(28,470,282)
Balance, December 31, 2011	207,604,334	\$ 96,276,107	\$ 8,782,612	\$ (99,707)	\$ (72,707,382)	\$32,251,630

- See accompanying notes to these Annual Consolidated Financial Statements -

**Belo Sun Mining Corp.**  
**Notes to the Annual Consolidated Financial Statements**  
**December 31, 2012 and 2011**  
(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, 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. 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 discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company’s ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values. The Company’s mining assets that are located outside of North America are subject to the risk of foreign investment, including increases in taxes and royalties, renegotiation of contracts, expropriation and currency exchange fluctuations and restrictions.

**2. Significant accounting policies**

**a) Statement of compliance**

These annual consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued and outstanding as at December 31, 2012. 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 27, 2013.

**b) Basis of preparation**

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

Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations. The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

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

**Belo Sun Mining Corp.**  
**Notes to the Annual Consolidated Financial Statements**  
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**c) Future accounting changes**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning after January 1, 2013 or later periods. Updates that are not applicable or are not consequential to the Company have been excluded thereof.

IFRS 9, Financial Instruments: Classification and Measurement, effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the period beginning January 1, 2015, and has not yet considered the potential impact of the adoption of IFRS 9.

IFRS 10, Consolidated Financial Statements, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (ii) defines the principle of control, and establishes control as the basis for consolidation; (iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation—Special Purpose Entities and is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company has not yet determined the impact of the amendments to IFRS 10 on its financial statements.

IFRS 11, Joint Arrangements, establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company has not yet determined the impact of the amendments to IFRS 11 on its financial statements.

IFRS 12, Disclosure of Involvement with Other Entities, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company has not yet determined the impact of the amendments to IFRS 12 on its financial statements.

IFRS 13, Fair Value Measurement, defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 (Share-based Payments); leasing transactions within the scope of IAS (17 Leases); measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 (Inventories); or value in use in IAS 36 (Impairment of Assets). This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted. The Company has not yet determined the impact of the amendments to IFRS 13 on its financial statements.



**Belo Sun Mining Corp.**  
**Notes to the Annual Consolidated Financial Statements**  
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IFRIC Interpretation 20, *Stripping Costs in the Production Phase of a Surface Mine* was issued by the IFRIC in October 2011. IFRIC 20 applies to all types of natural resources that are extracted using the surface mining activity process. IFRIC 20 may represent a change in accounting practice for some Canadian mining entities. Specifically, IFRIC 20 permits capitalization of stripping costs if all of the following three criteria are met:

- probability of future economic benefit (improved access to the ore body) flowing to the entity;
- identifiability of the component of the ore body for which access has been improved; and
- measurability of the costs associated to the stripping activity.

Furthermore, where the costs of the stripping activity asset and of the inventory produced are not separately identifiable, IFRIC 20 provides a more detailed cost allocation guidance based on a relevant production measure that allows allocation between inventory produced and the stripping activity asset. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013. Early application is permitted.

IAS 1, *Presentation of Financial Statements* ("IAS 1"), has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has not yet determined the impact of the amendments to IAS 1 on its financial statements.

**d) Principles of consolidation**

**(i) Subsidiaries**

All entities in which the Company has a controlling interest, specifically when it has the power to direct the financial and operational policies of these companies to obtain benefit from their operations, are fully consolidated from the date that control commences until the date that control ceases.

A controlling position is assumed to exist where the Company holds, directly or indirectly, a voting interest exceeding 50%, and where no other shareholder or group of shareholders exercises substantive participating rights which would enable it to veto or to block ordinary decisions taken by the Company.

A controlling position also exists where the Company, holding an interest of 50% or less in an entity, possesses control over more than 50% of the voting rights by virtue of an agreement with other investors, power to direct the financial and operational policies of the entity by virtue of a statute or contract, power to appoint or remove from office the majority of the members of the Board of Directors or equivalent management body, or the power to assemble the majority of voting rights at meetings of the Board of Directors or equivalent management body. The Company consolidates special purpose entities which it controls in substance because it has the right to obtain a majority of benefits, or because it retains the majority of residual risks inherent in the special purpose entity or its assets.

**Belo Sun Mining Corp.**  
**Notes to the Annual Consolidated Financial Statements**  
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**(ii) Transactions eliminated on consolidation**

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

**e) Significant accounting judgments, estimates and assumptions**

The preparation of these annual consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. These annual consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the audited 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 carrying values and impairment charges**

In the determination of carrying values and impairment charges, management looks at the recoverable amount considered to be higher of value in use or fair value less costs to sell in the case of assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period.

- **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 considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period

**Belo Sun Mining Corp.**  
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- 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.
- 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 relies on technical studies performed by consultants to make this assessment.
- Estimation of close down and restoration costs and the timing of expenditures  
The cost estimates are updated annually during the life of a mine to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.
- Estimation of asset lives and depletion, depreciation and amortization  
Depreciation and depletion expenses are allocated based on assumed asset lives and depletion/depreciation rates. Should the asset life or depletion/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 16.

**f) Presentation and functional currency**

The Company's audited 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. These audited annual consolidated financial statements have been translated to the Canadian dollar in accordance with IAS 21 The Effects of Changes in Foreign Exchange Rates.

**Belo Sun Mining Corp.**  
**Notes to the Annual Consolidated Financial Statements**  
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**g) Foreign currency translation**

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

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

**h) Cash and cash equivalents**

Cash and cash equivalents consists of cash in banks, short-term money market instruments, call deposits and other highly liquid investments with initial maturities of three months or less. Investments in securities, investments with initial maturities greater than three months without an early redemption feature and bank accounts subject to restrictions, other than restrictions due to regulations specific to a country or activity sector (exchange controls, etc.) are not presented as cash equivalents but as financial assets. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the annual consolidated statement of cash flows.

**i) Prepaid expenses and sundry receivables**

Prepaid expenses and sundry receivables are stated at their cost less impairment losses.

**j) 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, but has a derivative financial liability resulting from a land purchase agreement discussed in Note 4.

**Belo Sun Mining Corp.**  
**Notes to the Annual Consolidated Financial Statements**  
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**k) Property and equipment**

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

Property and equipment are carried at historical cost less any accumulated depreciation and impairment losses. Historical cost includes the acquisition cost or production cost as well as the costs directly attributable to bring the asset to the location and condition necessary for its use in operations. Amortization is computed using the straight-line method based on the estimated useful life of the assets (Note 2(k)(v)). Useful life is reviewed at the end of each reporting period. Assets financed by finance lease contracts and the corresponding liability are recorded at the lower of the fair value of future minimum lease payments and fair value. These assets are amortized on a straight-line basis over their estimated useful life. Amortization expenses on assets acquired under such leases are included in amortization expenses.

Subsequent to initial recognition, the cost model is applied to property and equipment.

**Leased assets**

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated amortization (see Note 2(k)(v)) and impairment losses. The property held under finance leases and leased out under operating lease is classified as investment property and stated at the fair value model. Property held under operating leases that would otherwise meet the definition of investment property may be classified as investment property on a property-by-property basis.

**(ii) Exploration and evaluation**

The Company expenses exploration and evaluation expenditures as incurred. Exploration and evaluation expenditures include acquisition costs of mineral properties, property option payments and exploration and evaluation activities.

Once a project has been established as commercially viable and technically feasible, 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, with the exception of development costs that give rise to a future benefit.

**(iii) Development**

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to construction are capitalized as construction-in-progress and classified as a component of property and equipment. Costs associated with the commissioning of new assets, in the period before they are operating in the way intended by management, are capitalized.

**Belo Sun Mining Corp.**  
**Notes to the Annual Consolidated Financial Statements**  
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**(iv) Subsequent costs**

The Company recognizes in the carrying amount of an item of property 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.

**(v) Amortization**

Amortization 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 and buildings under construction are not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- Vehicles 5 years
- Furniture and office equipment 3 to 25 years
- Mining equipment 10 years

The residual value, if not insignificant, is reassessed annually.

**l) Impairment**

When events or changes in the economic environment indicate a risk of impairment to intangible assets or 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 to sell) 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.

In addition, asset impairment tests are subject to the following provisions, pursuant to IAS 36 Impairment of Assets:

- Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the group of assets.
- Value in use is determined based on discounted cash flow projections consistent with the most recent budget and business plan approved by management. The discount rate applied reflects current assessments by the market of the time value of money and the risks specific to the asset or group of assets.
- Fair value (less costs to sell) is the amount obtainable from the sale of the asset or group of assets in an arm's length transaction between knowledgeable and willing parties, less costs to sell. These values are determined based on market data (comparison with similar listed companies, value attributed in recent transactions and stock market prices), or in the absence of reliable data based on discounted future cash flows.
- If the recoverable amount is less than the carrying amount of an asset or group of assets, an impairment loss is recognized for the difference. In the case of a group of assets, this impairment loss is recorded in priority against goodwill.
- Impairment losses recognized in respect of property and equipment and intangible assets (other than goodwill) may be reversed in a later period if the recoverable amount becomes greater than the carrying amount, within the limit of impairment losses previously recognized. Conversely, impairment losses recognized in respect of goodwill cannot be reversed.



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Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

**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:

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as fair value through profit or loss if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognized in interest income and finance costs in the statement of comprehensive loss.

The Company has designated cash, cash equivalents and term investment upon initial recognition as at fair value through profit or loss. The Company evaluated its financial assets at fair value through profit and loss (held for trading) to determine whether the intent to sell them in the near term is still appropriate. When the Company is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Company may elect, in rare circumstances, to reclassify these financial assets. The reclassification to loans and receivables, available-for-sale or held-to-maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Loans and receivables:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method ("EIR"), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of comprehensive loss. The losses arising from impairment are recognized in the statement of comprehensive loss.

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The Company has designated sundry receivables as loans and receivables.

De-recognition:

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - (a) the Company has transferred substantially all the risks and rewards of the asset; or
  - (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset.

In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

**n) Impairment of financial assets**

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.



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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.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of comprehensive loss.

The present value of the estimated future cash flows is discounted at the financial asset's original 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, loans and borrowings, 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 loans and borrowings, plus directly attributable transaction costs. Subsequently financial liabilities are measured based on their classification.

The Company's financial liabilities include accounts payable and accrued liabilities, which includes the derivative liability (Note 4), and finance leases. The derivative financial liability is subsequently measured at fair value, with changes in fair value recognized in the statement of comprehensive loss. Other financial liabilities are subsequently measured at amortized cost.

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

**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.

**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. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 10.

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.

**r) Finance costs**

Finance costs comprise interest payable on borrowings calculated using the effective interest rate method and foreign exchange gains and losses on foreign currency borrowings.

**s) 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. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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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.

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. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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.

**t) 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. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive loss net of any reimbursement. 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.

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**(i) Rehabilitation provision**

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground or environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the statement of comprehensive loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the statement of comprehensive loss.

As at December 31, 2012 and 2011, there was no provision recorded.

**(ii) Employee entitlements**

Employee entitlements to annual leave are recognized as the employees earn them. A provision, stated at current cost, is made for the estimated liability at period end.

**(iii) Onerous contract**

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

**u) Warrants**

Proceeds on the issuance of units are allocated between share capital and share-based payments reserve using a relative fair value approach, with warrant value determined based on the Black-Scholes pricing model.

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**3. Prepaid expenses and sundry receivables**

	31-Dec-12	31-Dec-11
Trade receivables and other advances	\$ 375,364	\$ 120,155
Prepaid taxes	338,278	-
HST/VAT receivable	142,794	248,157
Prepaid insurance	28,977	24,511
	<u>\$ 885,413</u>	<u>\$ 392,823</u>

Receivables disclosed above are classified as loans and receivables and are therefore measured at amortized cost.

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

Exploration and evaluation expenditures and engineering studies expensed immediately in the annual consolidated statement of comprehensive loss for the twelve months ended December 31, 2012 collectively amounted to \$35,804,796 (2011 - \$24,419,866).

Exploration and evaluation properties comprise the following:

a) Volta Grande, Para State, Brazil

The gold project includes approximately 101,525 hectares in twenty-two exploration permits (2011 – 103,169 hectares in twenty-two exploration permits) and 77,034 hectares in twenty-three exploration applications (2011 – 49,906 hectares in ten exploration applications) and is situated in the margin of the Xingu river, some 60 km from the city of Altamira, Para State.

Under the agreement, the Company agreed to pay to OCA Mineracao Ltda., an unrelated company whose controlling shareholder is the Tenaris-Confab Group, a total of US\$600,000 of which US\$12,500 was paid in January 2004 and US\$50,000 paid in April 2004 and the outstanding balance was paid in December 2006. OCA Mineracao Ltda. ownership was transferred to the Company in March 2008. The transfer of title to the Volta Grande Property to Belo Sun occurred following the arrangements with Companhia de Pesquisa de Recursos Minerais ("CPRM"), a Brazilian state owned company, whereby the Company has committed to pay CPRM 3,740,000 Reais if a mineable deposit is defined on the Volta Grande Property. As security, the Company purchased a term deposit of 3,740,000 Reais.

In March 2008, the Company successfully renegotiated the agreement with CPRM. Under the new terms, CPRM released to the Company 3,525,087 Reais of the total term deposit of 4,273,087 Reais including accrued interest, held in security to cover the Company's potential debt owed to CPRM. In addition, the Company allocated the balance of the original term deposit that was not released, amounting to 748,000 Reais, to be retained in an interest bearing term deposit to cover future royalty payments. There has been no production at Volta Grande Property thus no royalties payable and no amounts were withdrawn by CPRM.

The Company is committed to paying approximately US\$1,500,000 to CPRM if a mineable deposit is defined on the property, and to invest a minimum US\$1,500,000 at Volta Grande over a two year period. The Company has fulfilled its investment condition on this property.

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In May 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 total consideration agreed to be paid for the acquisition was 8,200,000 Reais in cash (\$4,190,200) and the issuance of 281,217 common shares of Belo Sun (or the cash equivalent based on the fair market value of the shares on the date of settlement) which had a fair value of 500,000 Reais at the time of the agreement. The portion of the consideration that may be settled in cash equivalent to the fair market value of the shares is considered a derivative liability. The Company paid 50% of the cash consideration on signing the definitive agreement, and the balance is to be paid once the vendors complete the demobilization of all “garimpo” (artisanal mining) activities on these properties. As at December 31, 2012, the Company had not issued the 281,217 shares and their fair market value increased to 936,000 Reais. The Company recorded an unrealized loss on derivative liability of 436,000 Reais (\$223,985) to account for the change in value of the shares since the initial land acquisition. The balance of consideration as well as the fair value of the common shares to be issued or settled in cash have been recorded as accrued liabilities as at December 31, 2012. Subsequent to December 31, 2012, the Company made a cash payment of 869,018 Reais (\$500,110) in lieu of issuing shares. The Company recorded an unrealized gain of approximately 67,000 Reais (\$37,000) and a realized loss of approximately 369,000 Reais (\$205,000) to account for the settlement of the obligation.

b) Patrocino, Para State, Brazil

This gold project is situated in the Para State and includes approximately 18,669 hectares (2011 – 18,669 hectares). Pursuant to a signed contract on October 8, 2004 the Company has the right to acquire 100% of the property. Under the terms of the contract, the Company must make 36 monthly payments of US \$1,667 and issue 200,000 common shares of the Company to the original owners. The Company is current on these payments and issued 200,000 common shares at \$0.10 on June 20, 2005. In addition, 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 consisted of a term deposit to fund the potential amounts owing to CPRM. On September 4, 2012, Brascan Bank closed its investment portfolio business. As a result the term deposit was redeemed and the proceeds of R\$1,058,832 (\$513,534) were deposited by the Company. The Company has opened a new account with Banco do Brasil SA to re-establish the term deposit to fund the potential amounts owing to CPRM. As at December 31, 2012, the balance in this account was R\$1,078,680 (\$524,131) (2011: R\$1,005,805 (\$548,968)) and the Company earned 0.5311% in interest for the month of December. The Company intends on rolling over the term deposit on maturity because it is security against the potential amount owing to the CPRM (Note 4(a)).



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**6. Property and equipment**

<i>Cost</i>	Vehicles	Furniture & equipment	Mining equipment	Assets under construction	Land	Total
Balance at December 31, 2010	\$257,094	\$ 178,812	\$ 136,237	\$ 78,009	\$ 7,267	\$ 657,419
Additions	203,859	349,832	74,517	124,357	-	752,565
FX adjustment	10,639	(24,056)	37,900	1,738	354	26,575
Balance at December 31, 2011	471,592	504,588	248,654	204,104	7,621	1,436,559
Additions	237,485	644,406	271,470	(62,506)	4,462,708	5,553,563
Disposal	(42,791)	-	-	-	-	(42,791)
FX adjustment	(25,701)	(2,194)	(6,800)	(24,187)	493	(58,389)
Balance at December 31, 2012	640,585	1,146,800	513,324	117,411	4,470,822	6,888,942
<i>Accumulated amortization</i>						
Balance as at December 31, 2010	69,250	37,150	33,432	-	-	139,832
Charge for the year	53,014	34,160	39,885	-	-	127,059
FX adjustment	6,673	4,967	11,339	-	-	22,979
Balance as at December 31, 2011	128,937	76,277	84,656	-	-	289,870
Charge for the year	82,361	63,300	110,421	-	-	256,082
Disposal	(17,116)	-	-	-	-	(17,116)
FX adjustment	(13,992)	(8,406)	(12,000)	-	-	(34,398)
Balance at December 31, 2012	\$180,190	\$ 131,171	\$ 183,077	\$ -	\$ -	\$ 494,438
Net book value as at December 31, 2011	\$342,655	\$ 428,311	\$ 163,998	\$ 204,104	\$ 7,621	\$1,146,689
Net book value as at December 31, 2012	\$460,395	\$1,015,629	\$ 330,247	\$ 117,411	\$4,470,822	\$6,394,504

As at December 31, 2011, the Company's finance leases consist of two vehicles having a net book value of \$81,493 (December 31, 2011 - \$149,314). The Company sold one of its vehicles and recorded a gain on sale of \$1,132 during the twelve months ended December 31, 2012 (2011: \$nil).

**7. Accounts payable and accrued liabilities**

	31-Dec-12	31-Dec-11
Mineral properties suppliers and contractors	\$ 1,606,074	\$ 1,782,014
Property acquisition consideration payable (Note 4(a))	2,450,403	-
DNPM taxes	154,744	219,795
Corporate payables	485,007	112,968
Audit and other accruals	129,000	50,000
	<u>\$ 4,825,228</u>	<u>\$ 2,164,777</u>

**8. Finance leases**

Finance leases relate to vehicles with lease terms of 1 to 2 years. The Company has options to purchase the vehicles for a nominal amount at the conclusion of the lease agreements. The Company entered into a new finance lease during the second quarter of 2012 for a new vehicle with a term of 2 years at an interest rate of approximately 19%.

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As at December 31, 2012, the finance leases were composed of the following obligations:

	2013	31,656
	2014	12,383
		<u>44,039</u>
less amounts representing interest		(7,329)
		<u>\$ 36,710</u>
	current portion	26,397
	long term portion	10,313
		<u>36,710</u>

**9. Share capital**

- a) As at December 31, 2012 and 2011, 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.
- b) Issued and outstanding share capital (common shares)

	Number of Shares	Amount
Balance, December 31, 2010	149,158,834	\$ 40,829,667
Public offering (i)	45,080,000	51,842,000
Exercise of stock options	2,659,000	1,397,078
Exercise of stock options - value allocation	-	958,656
Exercise of warrants	10,706,500	3,819,550
Exercise of warrants - value allocation	-	1,182,098
Value of warrants granted on exercise of broker units	-	(237,000)
Cost of issue	-	(3,515,942)
Balance, December 31, 2011	207,604,334	96,276,107
Public offering (ii)	35,720,000	50,008,000
Exercise of stock options	1,070,600	650,134
Exercise of stock options - value allocation	-	376,105
Exercise of warrants	21,515,600	10,610,850
Exercise of warrants - value allocation	-	2,524,985
Value of warrants granted on exercise of broker units	-	(293,900)
Cost of issue	-	(2,974,643)
Balance, December 31, 2012	265,910,534	\$ 157,177,638



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- (i) On March 25, 2011, the Company completed a bought deal financing of 45,080,000 common shares, including the full exercise of the agents' over-allotment option of 5,880,000 common shares, at a price of \$1.15 per common share for gross proceeds of \$51,842,000. The Company paid the underwriters a fee of 6% on funds raised.
- (ii) On October 10, 2012, the Company completed a bought deal financing of 35,720,000 common shares at a price of \$1.40 per common share for gross proceeds of \$50,008,000. The Company paid the underwriters a fee of 5% on funds raised.

**10. Share-based payments reserves**

The Company has an ownership-based compensation scheme for executives and employees. In accordance with the terms of the plan, as approved by shareholders at a previous annual general meeting, officers, directors 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 of 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	Number of Warrants	Weighted average exercise prices	Value of warrants	<b>TOTAL VALUE</b>
December 31, 2010	9,948,400	\$0.45	\$ 3,168,085	31,556,800	\$0.44	\$ 3,233,525	\$ 6,401,610
Granted	4,922,200	\$1.33	4,380,758	610,000	\$0.50	237,000	4,617,758
Exercised	(2,659,000)	\$0.53	(958,656)	(10,706,500)	\$0.36	(1,182,098)	(2,140,754)
Expired/forfeited	(60,000)	\$1.33	(53,400)	(372,500)	\$0.24	(42,602)	(96,002)
<b>December 31, 2011</b>	<b>12,151,600</b>	<b>\$0.79</b>	<b>\$ 6,536,787</b>	<b>21,087,800</b>	<b>\$0.49</b>	<b>\$ 2,245,825</b>	<b>\$ 8,782,612</b>
Granted	8,745,000	\$1.17	7,164,550	587,800	\$0.50	293,900	7,458,450
Exercised	(1,070,600)	\$0.61	(376,105)	(21,515,600)	\$0.49	(2,524,985)	(2,901,090)
Expired/forfeited	(63,000)	\$1.29	(54,970)	(160,000)	\$0.50	(14,740)	(69,710)
<b>December 31, 2012</b>	<b>19,763,000</b>	<b>\$0.96</b>	<b>\$ 13,270,262</b>	<b>-</b>	<b>\$0.00</b>	<b>\$ -</b>	<b>\$ 13,270,262</b>

The weighted average share price on the date of exercise of options and warrants during the year ended December 31, 2012 was \$1.11 and \$1.03 respectively (December 31, 2011: \$1.15 and \$1.19 respectively).

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The following share-based payments arrangements were in existence as at December 31, 2012:

Options:

Number outstanding	Number exercisable	Grant date	Expiry date	Exercise price	Expected volatility	Expected life (yrs)	Expected dividend yield	Risk-free interest rate
3,611,000	3,611,000	5-Mar-10	5-Mar-15	\$ 0.34	100%	5	0%	2.59%
60,000	60,000	2-Jun-10	2-Jun-15	\$ 0.45	100%	5	0%	2.68%
1,968,000	1,968,000	29-Jul-10	29-Jul-15	\$ 0.36	104%	5	0%	2.36%
50,000	50,000	11-Nov-10	11-Nov-15	\$ 0.80	94%	5	0%	2.50%
600,000	600,000	5-Dec-10	5-Dec-15	\$ 0.89	94%	5	0%	2.40%
4,742,000	4,742,000	21-Apr-11	21-Apr-16	\$ 1.33	94%	5	0%	2.70%
3,467,000	3,467,000	31-Jan-12	31-Jan-17	\$ 1.15	94%	5	0%	1.25%
250,000	250,000	30-Apr-12	30-Apr-17	\$ 1.15	94%	5	0%	1.60%
700,000	700,000	14-Jun-12	14-Jun-17	\$ 1.17	94%	5	0%	1.28%
2,815,000	2,815,000	3-Jul-12	3-Jul-17	\$ 1.15	94%	5	0%	1.26%
1,200,000	1,200,000	10-Jul-12	10-Jul-17	\$ 1.15	94%	5	0%	1.18%
300,000	300,000	29-Nov-12	29-Nov-17	\$ 1.70	93%	5	0%	1.30%
19,763,000	19,763,000							

Fair value of share options granted in the period:

During the twelve months ended December 31, 2012, the Company granted 8,745,000 stock options (2011: 4,922,000). A value of \$7,164,550 was recorded to the statement of comprehensive loss for the twelve months ended December 31, 2012 (2011: \$4,380,758) related to these stock options. The weighted average grant date fair value of the share options granted during the twelve months ended December 31, 2012 is \$0.82 (2011: \$0.89). 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 is 3.47 years. The weighted average market price on the date of grant for options granted during the period was \$1.15 (2011: \$1.33).

**11. Operating segments**

*Geographical information*

The Company operates in Canada, Barbados and Brazil. The Company's information about its assets by geographical location are detailed below.

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	Current assets	Property and equipment	Other long-term assets	TOTAL ASSETS
<u>December 31, 2012</u>				
Canada	\$ 37,254,580	\$ 7,684	\$ -	\$ 37,262,264
Barbados	1	-	-	1
Brazil	9,608,073	6,386,820	524,131	16,519,024
	<u>\$ 46,862,654</u>	<u>\$ 6,394,504</u>	<u>\$ 524,131</u>	<u>\$ 53,781,289</u>
<u>December 31, 2011</u>				
Canada	\$ 12,439,612	\$ 9,325	\$ -	\$ 12,448,937
Barbados	1,553	-	-	1,553
Brazil	20,367,603	1,137,364	548,968	22,053,935
	<u>\$ 32,808,768</u>	<u>\$ 1,146,689</u>	<u>\$ 548,968</u>	<u>\$ 34,504,425</u>

**12. 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 cash or 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 cash or shares would be anti-dilutive.

**13. Financial instruments**

Financial assets and financial liabilities as at December 31, 2012 and 2011 were classified as follows:

December 31, 2012	Loans and receivables	Other liabilities	Assets /(liabilities) at fair value through profit/loss	Total
Cash and cash equivalents	\$ -	\$ -	\$ 45,977,241	\$ 45,977,241
Sundry receivables	375,364	-	-	375,364
Term investment	-	-	524,131	524,131
Accounts payable and accrued liabilities	-	4,344,380	480,848	4,825,228
Finance leases	-	36,710	-	36,710

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December 31, 2011	Loans and receivables	Other liabilities	Assets /(liabilities) at fair value through profit/loss	Total
Cash and cash equivalents	\$ -	\$ -	\$ 32,415,945	\$ 32,415,945
Sundry receivables	120,155	-	-	\$ 120,155
Term investment	-	-	548,968	\$ 548,968
Accounts payable and accrued liabilities	-	2,164,777	-	\$ 2,164,777
Finance leases	-	66,745	-	\$ 66,745

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 judgement.

At December 31, 2012, the Company's financial instruments that are carried at fair value, consisting of cash and cash equivalents, term investment and derivative liability have been classified as Level 1 within the fair value hierarchy.

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 twelve months ended December 31, 2012 and 2011.

#### Credit risk

Credit risk arises from the non-performance by counterparties of contractual financial obligations. The Company's primary counterparty 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, British, US and Brazilian financial institutions. Deposits held with these institutions may exceed the amount of insurance provided on such deposits. Sundry receivables consist of supplies deposit and management believes that the credit risks associated with these amounts are remote.

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

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.

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As at December 31, 2012, the Company had current assets of \$46,862,654 to settle current liabilities of \$4,858,716.

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 December 31, 2012, a 0.1% change in interest rates could result in a corresponding change in net loss of approximately \$46,000 (December 31, 2011 - \$32,000).

(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 Reais. 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 Reais would have decreased net income by approximately \$121,000 for the twelve months ended December 31, 2012 (2011 - \$345,000). A strengthening of \$0.01 in the Canadian dollar against the United States dollar would have decreased other comprehensive income by approximately \$59,000 for the twelve months ended December 31, 2012 (2011 - \$185,000). At December 31, 2012, one Canadian dollar was equal to 0.9949 United States dollars (2011 - 0.9833) and one Canadian dollar was equal to 2.0580 Brazilian Reais (2011 - 1.8322).

(c) Price risk

The Company will be exposed to price risk with respect to commodity prices, specifically gold. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. The Company's future operations will be significantly affected by changes in the market prices of these commodities. Prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for gold, the level of interest rates, the rate of inflation, investment decisions by large holders of gold and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors may in turn be influenced by changes in international investment patterns and monetary systems and political developments.

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**14. Capital management**

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of mineral properties. The capital of the Company consists of share capital and share-based payments reserve. 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 to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration and development stage; as such the Company is dependent on external financing to fund its activities. In order to carry out planned exploration and development, and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no significant changes in the Company's approach to capital management during the twelve months ended December 31, 2012 and 2011. The Company is not subject to externally imposed capital requirements.

**15. Related party disclosures**

The audited 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 Mining (Barbados) Corp.	Barbados	100
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 period, 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 Twelve months ended December 31,	
	2012	2011
2227929 Ontario Inc.	\$ 446,825	\$ 275,202
Forbes & Manhattan, Inc.	315,000	180,000
Falcon Metais Ltda.	339,584	162,510
Valencia Ventures Inc.	-	1,366

The Company shares office space with other companies who may have common officers and directors. The costs associated with this space are administered by 2227929 Ontario Inc.

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Mr. Stan Bharti, a director of the Company, is the Executive Chairman of Forbes and Manhattan, Inc., a corporation that provides administrative services to the Company. Forbes and Manhattan, Inc. charges a monthly consulting fee of \$25,000.

Mr. Helio Diniz, Vice President of Exploration for the Company, is an officer of Falcon Metais Ltda., a company providing exploration and administration services in Brazil.

Mr. Michael Hoffman, Vice President of Engineering for the Company, is a director of Azul Ventures Inc. The Company was reimbursed by Azul Ventures Inc. for \$2,093 in travel expenses incurred by Mr. Hoffman paid by the Company on his behalf during the twelve months ended December 31, 2012 (2011: \$nil).

The following balances were outstanding at the end of the reporting period:

	Amounts owed by related parties		Amounts owed to related parties	
	31-Dec-12	31-Dec-11	31-Dec-12	31-Dec-11
2227929 Ontario Inc.	\$ 90,000	\$ 72,209	\$ -	\$ 14,893
Directors of the Company	-	-	53,280	72,936
Falcon Metais Ltda.	-	29,384	47,057	-

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:

	Twelve months ended December 31,	
	2012	2011
Short-term benefits	\$ 2,337,054	\$ 1,383,209
Share-based payments	4,249,500	2,937,000

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.

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.



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**16. Commitments and contingencies**

(a) Long Term Investment

Under a successfully renegotiated agreement with CPRM (Note 5) in March 2008, the Company maintains an interest bearing term deposit to cover the future royalty payments, starting March 31, 2008. There has been no production at Volta Grande Property thus no royalties were payable and no amounts were withdrawn by the CPRM.

(b) The Company is party to certain management contracts. These contracts require that additional payments of up to \$5,140,000 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 audited annual consolidated financial statements. Minimum commitments remaining under these contracts were approximately \$847,000 all due within one year.

(c) 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 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.

**17. Income tax**

In assessing the realization of the Company's deferred income tax assets, management considers whether it is probable that some portion of all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected deferred taxable income, and tax planning strategies in making this assessment. The amount of deferred tax assets considered realizable could change materially in the near term based on future taxable income during the carry-forward period.



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

	2012	2011
Loss before income taxes	\$ 48,407,634	\$ 32,869,959
Statutory rate	26.50%	28.25%
Expected income tax recovery	12,828,023	9,285,763
Change in unrecognized deferred tax assets	(12,127,200)	(8,616,767)
Non-deductible expenses and permanent differences	(1,904,882)	(1,710,432)
Expired losses	-	-
Change in tax rate, foreign exchange and other	1,204,059	1,041,436
Income tax expense	\$ -	\$ -

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

	2012	2011
Deferred income tax assets and liabilities:		
Capital and non-capital tax losses carried forward	6,812,000	5,359,800
Capital assets	7,500	3,800
Unused foreign exploration and evaluation expenses	22,366,500	12,165,000
Share issue costs	1,214,900	745,100
Other liability	(7,091)	(14,182)
Net deferred income tax assets and liabilities	30,393,809	18,259,518
Unrecognized deferred tax assets	(30,400,900)	(18,273,700)
Deferred income tax asset (liability)	(7,091)	(14,182)

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- (c) As at December 31, 2012, the Company has non-capital losses carried forward for income tax purposes available to reduce taxable income in future years of \$14,486,200 expiring as follows:

2014	497,000
2015	430,100
2026	481,900
2027	1,083,600
2028	869,700
2029	664,700
2030	2,166,200
2031	2,778,900
2032	5,514,100
	<u>\$14,486,200</u>

As at December 31, 2012, Belo Sun Mining (Barbados) Corp. has non-capital losses carried forward for income tax purposes available to reduce taxable income in future years of \$128,100 expiring as follows:

2013	\$7,200
2014	11,600
2015	12,700
2017	38,200
2018	12,500
2019	18,000
2020	14,100
2021	13,800
	<u>\$128,100</u>

As at December 31, 2012, Belo Sun Mineracao Ltda. (Brazil) has non-capital losses carried forward of approximately CAD\$8,516,150 that carry forward indefinitely. These losses only offset 30% of taxable income in each subsequent year.

The current tax liability of \$7,091 (December 31, 2011 - \$7,091) represents amount of income taxes payable in respect of current and prior periods. An amount of \$7,091 (December 31, 2011 - \$14,182) is recorded as deferred taxes.