



ANNUAL CONSOLIDATED
FINANCIAL STATEMENTS

For the twelve months ended
December 31, 2013 and 2012

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, 2013 and December 31, 2012 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, 2013 and December 31, 2012 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 26, 2014
Toronto, Ontario

Belo Sun Mining Corp.
Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

	Notes	December 31, 2013	December 31, 2012
Assets			
Current assets			
Cash and cash equivalents		\$ 13,197,670	\$ 45,977,241
Prepaid expenses and sundry receivables	3	279,009	885,413
		13,476,679	46,862,654
Non-current assets			
Property and equipment	6	6,584,995	6,394,504
Term investment	5	517,427	524,131
Total Assets		\$ 20,579,101	\$ 53,781,289
Liabilities and Equity			
Current liabilities			
Accounts payable and accrued liabilities	7	\$ 1,049,128	\$ 4,825,228
Finance leases	8	9,558	26,397
Current taxes	17	7,091	7,091
		1,065,777	4,858,716
Non-current liabilities			
Finance leases	8	-	10,313
Deferred taxes	17	-	7,091
		1,065,777	4,876,120
Equity			
Share capital	9	157,304,907	157,177,638
Share-based payments reserve	10	15,141,493	13,270,262
Accumulated other comprehensive loss		144,548	(497,425)
Deficit		(153,077,624)	(121,045,306)
Total Equity		19,513,324	48,905,169
Total Liabilities and Equity		\$ 20,579,101	\$ 53,781,289

Commitments and contingencies 16

Approved on behalf of the Directors:

"Catherine Stretch"

Director

"Mark Eaton"

Director

Belo Sun Mining Corp.
Consolidated Statements of Comprehensive Loss

(Expressed in Canadian dollars)

		Twelve months ended December 31,	
	Notes	2013	2012
Expenses			
Management fees paid to directors	15	\$ 702,688	\$ 559,803
Salaries, wages and consulting fees		4,603,620	2,933,486
Legal fees		23,392	30,360
Audit fees		102,047	185,320
General and administration		2,646,002	2,218,312
Depreciation		379,692	256,082
Share-based payments	10	2,426,000	7,164,550
Exploration and evaluation expenses	4	11,648,898	29,694,408
Engineering studies	4	10,014,203	6,110,388
Foreign exchange loss		811,851	169,998
Loss from operations		(33,358,393)	(49,322,707)
Interest income		782,225	1,137,926
Gain on sale of assets		12,226	1,132
Gain/(loss) on derivative liability	4	32,124	(223,985)
Net loss for the year		(32,531,818)	(48,407,634)
Exchange differences on translating foreign operations		641,973	(397,718)
Comprehensive loss for the year		\$ (31,889,845)	\$ (48,805,352)
Loss per share	12		
Basic		\$ (0.12)	\$ (0.21)
Diluted		\$ (0.12)	\$ (0.21)
Weighted average number of shares outstanding:			
Basic and diluted		265,982,863	234,592,706

Belo Sun Mining Corp.
Consolidated Statements of Cash Flows

(Expressed in Canadian dollars)

		Twelve months ended December 31,	
	Notes	2013	2012
Cash provided by (used in) operations:			
Net (loss)		\$(32,531,818)	\$(48,407,634)
Items not involving cash:			
Share-based payments	10	2,426,000	7,164,550
Depreciation		379,692	256,082
Interest income		(782,225)	(1,137,926)
Interest income received		748,475	1,100,476
(Gain) on sale of assets		(12,226)	(1,132)
Impairment charge on assets	6	67,314	-
(Gain)/loss on derivative liability		(32,124)	223,985
Unrealized loss on foreign exchange		402,930	819,507
Working capital adjustments:			
Change in prepaid expenses and sundry receivables and advances		606,404	(492,590)
Change in accounts payables and accrued liabilities		(1,329,174)	210,054
Change in income taxes		(7,091)	(7,091)
Net cash (used) by operating activities		(30,063,843)	(40,271,719)
Investing activities			
Expenditures on property and equipment		(203,690)	(3,283,980)
Proceeds from sale of assets		12,226	26,801
Payment against liabilities related to the acquisition of land	4	(2,391,743)	-
Net cash (used) in investing activities		(2,583,207)	(3,257,179)
Financing activities			
Proceeds from issuance of shares		-	50,008,000
Share issuance costs		-	(2,974,643)
Exercise of warrants and options		72,000	11,260,984
Finance lease payments		(26,046)	(67,623)
Net cash provided by financing activities		45,954	58,226,718
Change in cash and cash equivalents		(32,601,096)	14,697,820
Cash and cash equivalents, beginning of the year		45,977,241	32,415,945
Effect of exchange rate on cash held		(178,475)	(1,136,524)
Cash and cash equivalents, end of the year		\$ 13,197,670	\$ 45,977,241
Cash and cash equivalents are comprised of:			
Cash in bank		\$ 10,956,359	\$ 36,786,718
Short-term money market instruments		\$ 2,241,311	\$ 9,190,523
		\$ 13,197,670	\$ 45,977,241
Supplemental Information:			
Accounts payable and accrued liabilities related to the acquisition of land		\$ -	\$ 2,450,403

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, 2012	265,910,534	\$ 157,177,638	\$ 13,270,262	\$ (497,425)	\$ (121,045,306)	\$48,905,169
Exercise of options	200,000	72,000	-	-	-	72,000
Valuation allocation on exercise of options	-	55,269	(55,269)	-	-	-
Valuation allocation for expiry of warrants and options	-	-	(499,500)	-	499,500	-
Comprehensive (loss)	-	-	2,426,000	641,973	(32,531,818)	(29,463,845)
Balance, December 31, 2013	266,110,534	\$ 157,304,907	\$ 15,141,493	\$ 144,548	\$ (153,077,624)	\$19,513,324
Balance, December 31, 2011	207,604,334	\$ 96,276,107	\$ 8,782,612	\$ (99,707)	\$ (72,707,382)	\$32,251,630
Public offering	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

Belo Sun Mining Corp.
Notes to the Annual Consolidated Financial Statements
December 31, 2013 and 2012
(Expressed in Canadian dollars unless otherwise noted)

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, 8th Floor, Toronto, Ontario, Canada, M5H 2M5.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and 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, 2013. 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 26, 2014.

b) Basis of preparation

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

The policies set out below were consistently applied to all the periods presented unless otherwise noted below.

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c) New accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (“IASB”) or International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning on or after January 1, 2013.

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 re-assessed its control conclusions and determined that there were no changes in the consolidation status of any of its subsidiaries.

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 currently has no joint arrangements and therefore there is no impact of IFRS 11 to the Company’s financial statements.

IFRS 12, Disclosure of Interests in 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 determined that it is in compliance with IFRS 12 and there was no change to the financial statements disclosure as a result of this change.

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 determined that it is in compliance with IFRS 13 and there was no impact of this change on the Company’s 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. As the Company is not in a production phase, there is no impact to the Company's financial statements as a result of this change.

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 determined that there is no impact of the amendments to IAS 1 on its financial statements.

d) Future accounting policies

IFRS 9, Financial Instruments: Classification and Measurement, introduces new requirements for the classification and measurement of financial instruments. The date of application is yet to be determined, and the Company has not yet considered the potential impact of the adoption of IFRS 9.

e) 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.

(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.

Belo Sun Mining Corp.
Notes to the Annual Consolidated Financial Statements
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f) 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 audited 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 reassesses unrecognized income tax assets at each reporting period.
- **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.

Belo Sun Mining Corp.
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- 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.

g) 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.

h) 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").

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

i) 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.

j) Prepaid expenses and sundry receivables

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

k) 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.

l) 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. Useful life is reviewed at the end of each reporting period.

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 and impairment losses.

(ii) 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.

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(Expressed in Canadian dollars unless otherwise noted)

(iii) 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 assets under construction are not depreciated. The estimated useful lives in the current and comparative periods are as follows:

- Vehicles 5 years
- Buildings, furniture and office equipment 3 to 25 years
- Mining equipment 10 years

m) Exploration and evaluation expenditures

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, 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, with the exception of development costs that give rise to a future benefit.

n) 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 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.

o) 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.

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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 fair value through profit and loss 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 and 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 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.

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.

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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.

p) 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.

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.

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q) 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 loans and borrowings, plus directly attributable transaction costs.

The Company has designated accounts payable and accrued liabilities and finance leases 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.

r) 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.

s) 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.

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t) 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.

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.

u) 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, 2013 and 2012, there was no provision recorded.

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3. Prepaid expenses and sundry receivables

	December 31, 2013	December 31, 2012
Trade receivables and other advances	\$ 139,887	\$ 375,364
Prepaid taxes	-	338,278
HST/VAT receivable	115,539	142,794
Prepaid insurance	23,583	28,977
	\$ 279,009	\$ 885,413

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 twelve months ended December 31, 2013 collectively amounted to \$21,663,101 (2012 - \$35,804,796).

Exploration and evaluation properties comprise the following:

a) Volta Grande, Para State, Brazil

The gold project includes approximately 110,948 hectares in twenty-four exploration permits (2012 – 101,525 hectares in twenty-two exploration permits) and 67,438 hectares in twenty-one exploration applications (2012 – 77,034 hectares in twenty-three 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 (Note 5). There has been no production at Volta Grande Property thus no royalties were payable and no amounts were withdrawn by CPRM.

The Company was 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 was to 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 was to be paid once the vendors completed the demobilization of all “garimpo” (artisanal mining) activities on these properties. On February 1, 2013, the Company made a cash payment of 869,018 Reais (\$437,985) in lieu of issuing shares. The Company recorded a net gain of 67,001 Reais (\$32,124) for the twelve months ended December 31, 2013 to account for the settlement of the obligation. The Company realized a net loss for the transaction of 369,018 Reais (\$191,861) of which a loss of 436,019 Reais (\$223,985) was recognized in 2012 and a gain of 67,001 Reais (\$32,124) was recognized in 2013. In addition to this payment, during the twelve months ended December 31, 2013, the Company paid 4,100,000 Reais (\$1,953,758) clearing the balance of this liability.

b) Patrocino, Para State, Brazil

This gold project is situated in the Para State and includes approximately 18,669 hectares (2012 – 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 consists of a term deposit with Banco do Brasil SA to fund the potential amounts owing to CPRM. As at December 31, 2013, the balance in this account was R\$1,149,072 (\$517,427) (2012: R\$1,078,680 (\$524,131)) and the Company earned 6.53% in interest for the twelve months ended December 31, 2013. 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, 2011	\$471,592	\$ 504,588	\$ 248,654	\$ 204,104	\$ 7,621	\$1,436,559
Additions	237,485	644,406	271,469	(62,506)	4,462,708	5,553,562
Disposal	(42,791)	-	-	-	-	(42,791)
FX adjustment	(25,701)	(2,194)	(6,799)	(24,187)	493	(58,388)
Balance at December 31, 2012	640,585	1,146,800	513,324	117,411	4,470,822	6,888,942
Additions	4,558	282,714	26,134	(109,716)	-	203,690
FX adjustment	16,435	21,228	4,563	(7,695)	312,097	346,628
Balance at December 31, 2013	661,578	1,450,742	544,021	-	4,782,919	7,439,260
<i>Accumulated depreciation and impairment</i>						
Balance at December 31, 2011	128,937	76,277	84,656	-	-	289,870
Charge for the year	82,361	63,300	110,422	-	-	256,083
Disposal	(17,116)	-	-	-	-	(17,116)
FX adjustment	(13,992)	(8,406)	(12,001)	-	-	(34,399)
Balance at December 31, 2012	180,190	131,171	183,077	-	-	494,438
Charge for the year	119,918	84,452	175,322	-	-	379,692
Impairment adjustments	34,980	35,664	(3,330)	-	-	67,314
FX adjustment	(8,340)	(64,586)	(14,253)	-	-	(87,179)
Balance at December 31, 2013	\$326,748	\$ 186,701	\$ 340,816	\$ -	\$ -	\$ 854,265
Net book value as at December 31, 2012	\$460,395	\$1,015,629	\$ 330,247	\$ 117,411	\$4,470,822	\$6,394,504
Net book value as at December 31, 2013	\$334,830	\$1,264,041	\$ 203,205	\$ -	\$4,782,919	\$6,584,995

During the twelve months ended December 31, 2013, the Company assessed the value of its property and equipment and, as a result, recorded an impairment adjustment of \$67,314 (December 31, 2012: \$nil). This amount is recorded in General and administration on the consolidated statement of comprehensive loss.

As at December 31, 2013, the Company's finance leases consist of one vehicle having a net book value of \$33,653 (December 31, 2012 – two vehicles with a net book value of \$81,493).

During the twelve months ended December 31, 2013, the Company sold machinery for gross proceeds of R\$25,000 (\$12,226). This asset had been fully depreciated such that the Company recognized a gain of \$12,226 on the Consolidated Statement of Comprehensive Loss for the twelve months ended December 31, 2013. For the twelve months ended December 31, 2012, the Company sold one of its vehicles and recorded a gain on sale of \$1,132.

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7. Accounts payable and accrued liabilities

Mineral properties suppliers and contractors	\$	758,297	\$	1,606,074
Property acquisition consideration payable (Note 4(a))		-		2,450,403
Departamento Nacional de Produção Mineral ("DNPM") taxes		142,533		154,744
Corporate payables		38,298		485,007
Audit and other accruals		110,000		129,000
	\$	1,049,128	\$	4,825,228

8. Finance leases

The Company's existing finance lease, entered into in 2012 to acquire a new vehicle, has a term of two years at an interest rate of approximately 19%. The Company has the option to purchase the vehicle for a nominal amount at the conclusion of the lease agreements.

As at December 31, 2013, the finance leases were composed of the following obligations:

2014	<u>11,476</u>
	<u>11,476</u>
less amounts representing interest	(1,918)
	<u>\$ 9,558</u>
current portion	9,558
long term portion	<u>-</u>
	<u>9,558</u>

9. Share capital

- a) As at December 31, 2013 and 2012, 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.

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b) Issued and outstanding share capital (common shares)

	Number of Shares	Amount
Balance, December 31, 2011	207,604,334	\$ 96,276,107
Public offering (i)	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
Exercise of stock options	200,000	72,000
Exercise of stock options - value allocation	-	55,269
Balance, December 31, 2013	266,110,534	\$ 157,304,907

- (i) 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 plan for executives and employees. In accordance with the terms of the plan, 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	TOTAL VALUE
December 31, 2011	12,151,600	\$0.79	\$ 6,536,787	21,087,800	\$0.49	\$ 2,245,825	\$ 8,782,612
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)
December 31, 2012	19,763,000	\$0.96	\$ 13,270,262	-	\$0.00	\$ -	\$ 13,270,262
Granted	4,000,000	\$0.74	2,426,000	-	\$0.00	-	2,426,000
Exercised	(200,000)	\$0.36	(55,269)	-	\$0.00	-	55,269
Expired/forfeited	(620,000)	\$1.14	(499,500)	-	\$0.00	-	499,500
December 31, 2013	22,943,000	\$0.93	\$ 15,141,493	-	\$0.00	\$ -	\$ 15,141,493

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The weighted average share price on the date of exercise of options and warrants during the twelve months ended December 31, 2013 was \$0.81 and \$nil respectively (December 31, 2012: \$1.11 and \$1.03 respectively).

The following share-based payments arrangements were in existence as at December 31, 2013:

Options:

Number outstanding	Number exercisable	Grant date	Expiry date	Exercise price	Expected volatility	Black-Scholes inputs		Risk-free interest rate
						Expected life (yrs)	Expected dividend yield	
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%
1,768,000	1,768,000	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%
500,000	500,000	5-Dec-10	5-Dec-15	\$ 0.89	94%	5	0%	2.40%
4,657,000	4,657,000	21-Apr-11	21-Apr-16	\$ 1.33	94%	5	0%	2.70%
3,372,000	3,372,000	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%
400,000	400,000	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%
1,160,000	1,160,000	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%
50,000	50,000	11-Jan-13	11-Jan-18	\$ 1.58	119%	5	0%	1.48%
200,000	200,000	9-Apr-13	9-Apr-18	\$ 1.14	118%	5	0%	1.24%
3,750,000	3,750,000	19-Aug-13	19-Aug-18	\$ 0.71	118%	5	0%	1.98%
22,943,000	22,943,000							

Fair value of share options granted in the period:

During the twelve months ended December 31, 2013, the Company granted 4,000,000 stock options (2012: 8,745,000). A value of \$2,426,000 was recorded to the statement of comprehensive loss for the twelve months ended December 31, 2013 (2012: \$7,164,550) related to these stock options. The weighted average grant date fair value of the share options granted during the twelve months ended December 31, 2013 is \$0.61 (2012: \$0.82). 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 2.84 years. The weighted average market price on the date of grant for options granted during the year was \$0.74 (2012: \$1.15).

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11. Operating segments

Geographical information

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

	Current assets	Property and equipment	Other long-term assets	Total Assets
<u>December 31, 2013</u>				
Canada	\$ 11,195,075	\$ 3,036	\$ -	\$ 11,198,111
Brazil	2,281,604	6,581,959	517,427	9,380,990
	<u>\$ 13,476,679</u>	<u>\$ 6,584,995</u>	<u>\$ 517,427</u>	<u>\$ 20,579,101</u>
<u>December 31, 2012</u>				
Canada	\$ 37,254,581	\$ 7,684	\$ -	\$ 37,262,265
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>

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 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.

13. Financial instruments

Financial assets and financial liabilities as at December 31, 2013 and 2012 were classified as follows:

	Loans and receivables	Other liabilities	Assets /(liabilities) at fair value through profit/loss	Total
<u>December 31, 2013</u>				
Cash and cash equivalents	\$ -	\$ -	\$ 13,197,670	\$ 13,197,670
Sundry receivables	139,887	-	-	139,887
Term investment	-	-	517,427	517,427
Accounts payable and accrued liabilities	-	1,049,128	-	1,049,128
Finance leases	-	9,558	-	9,558

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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

The fair value of sundry receivables, accounts payable and accrued liabilities and finance leases 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 judgement.

At December 31, 2013, the Company's 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.

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, 2013 and 2012.

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. Prepaid expenses and sundry receivables consist of supplies deposits 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, 2013, the Company had current assets of \$13,476,679 to settle current liabilities of \$1,065,777.

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, 2013, a 0.1% change in interest rates could result in a corresponding change in net loss of approximately \$13,000 (December 31, 2012 - \$46,000).

(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 \$47,000 for the twelve months ended December 31, 2013 (2012 - \$121,000). 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 twelve months ended December 31, 2013 (2012 - \$59,000). At December 31, 2013, one Canadian dollar was equal to 0.9402 United States dollars (2012 - 1.0051) and one Canadian dollar was equal to 2.2207 Brazilian Reais (2012 - 2.0580).

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.

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There were no significant changes in the Company's approach to capital management during the twelve months ended December 31, 2013 and 2012. The Company is not subject to externally imposed capital requirements.

15. 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 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 year 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	
	Year ended	
	December 31,	
	2013	2012
2227929 Ontario Inc.	\$ 538,700	\$ 446,825
Forbes & Manhattan, Inc.	313,000	315,000
Falcon Metais Ltda.	159,890	339,584

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 fee. 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 administrative and consulting services to the Company, including but not limited to strategic planning and business development. Forbes & Manhattan, Inc. charges a monthly consulting fee of \$25,000. During the twelve months ended December 31, 2013, the Company granted Mr. Bharti, through Forbes & Manhattan, Inc., a bonus of \$13,000.

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

Mr. Michael Hoffman, Vice President of Engineering for the Company, is a director of Azul Ventures Inc.. During the twelve months ended December 31, 2013, the Company was reimbursed by Azul Ventures Inc. for \$nil (2012: \$2,093) in travel expenses incurred by Mr. Hoffman paid by the Company on his behalf.

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

	Amounts owed by related parties		Amounts owed to related parties	
	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
2227929 Ontario Inc.	\$ -	\$ 90,000	\$ 11,661	\$ -
Directors of the Company	-	-	-	53,280
Falcon Metais Ltda.	-	-	-	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:

	Year ended December 31,	
	2013	2012
Short-term benefits	\$ 3,109,833	\$ 2,337,054
Share-based payments	1,288,760	4,249,500

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.

16. Commitments and contingencies

(a) Long Term Investment

Under a successfully renegotiated agreement with CPRM (Note 4) 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 \$7,470,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is uncertain and it is not probable that there will be any outflow of resources to settle the commitment, the contingent payments have not been reflected in these annual consolidated financial statements. Minimum commitments remaining under these contracts were approximately \$866,000 all due within one year.

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(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 taxes

(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.

	2013	2012
Loss before income taxes	\$ 32,531,818	\$ 48,407,634
Statutory rate	26.50%	26.50%
Expected income tax recovery	\$ 8,620,932	\$ 12,828,023
Change in unrecognized deferred tax assets	(4,940,800)	(12,127,200)
Non-deductible expenses and permanent differences	(2,572,406)	(1,904,882)
Expired losses	-	-
Change in tax rate, foreign exchange and other	(1,107,726)	1,204,059
Income tax expense	\$ -	\$ -

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

	2013	2012
Deferred income tax assets and liabilities:		
Capital and non-capital tax losses carried forward	\$ 9,092,600	\$ 6,812,000
Capital assets	8,700	7,500
Unused foreign exploration and evaluation expenses	25,388,700	22,366,500
Share issue costs	851,700	1,214,900
Other liability	-	(7,100)
Net deferred income tax assets and liabilities	35,341,700	30,393,800
Unrecognized deferred tax assets	(35,341,700)	(30,400,900)
Deferred income tax asset (liability)	\$ -	\$ (7,100)

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(c) As at December 31, 2013, the Company has non-capital losses carried forward for income tax purposes available to reduce taxable income in future years of \$20,922,200 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		5,485,200
2033		6,464,900
	\$	<u>20,922,200</u>

As at December 31, 2013, Belo Sun Mining (Barbados) Corp. has non-capital losses carried forward for income tax purposes available to reduce taxable income in future years of \$143,100 expiring as follows:

2014	\$	12,300
2015		13,500
2017		40,700
2018		13,200
2019		19,300
2020		15,000
2021		14,700
2022		14,400
	\$	<u>143,100</u>

As at December 31, 2013, Belo Sun Mineracao Ltda. (Brazil) has non-capital losses carried forward of approximately CAD\$10,331,000 that carry forward indefinitely. These losses only offset 30% of taxable income in each subsequent year.