



CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

For the three and nine months ended
September 30, 2018 and 2017

unaudited

(expressed in Canadian dollars)

Belo Sun Mining Corp.

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

(Expressed in Canadian dollars)

| | Notes | September 30, 2018 | December 31, 2017 |
|--|-------|-----------------------|----------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | \$ 37,723,190 | \$ 65,093,701 |
| Prepaid expenses and sundry receivables | 3 | 221,942 | 252,954 |
| | | 37,945,132 | 65,346,655 |
| Non-current assets | | | |
| Promissory notes receivable | 5 | 10,174,467 | - |
| Property, plant and equipment | 7 | 20,146,796 | 16,963,696 |
| Term investment | 4 | 550,551 | 621,857 |
| Total Assets | | \$ 68,816,946 | \$ 82,932,208 |
| Liabilities and Equity | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 8 | \$ 4,344,626 | \$ 8,270,601 |
| Non-current liabilities | | | |
| Long-term liabilities | 8 | - | 1,084,663 |
| | | 4,344,626 | 9,355,264 |
| Equity | | | |
| Share capital | 9 | 258,924,019 | 264,043,853 |
| Share-based payments reserve | 10 | 4,152,896 | 5,044,952 |
| Contributed Surplus | 11 | 300,285 | (680,651) |
| Accumulated other comprehensive income | | 1,097,856 | 729,648 |
| Deficit | | (200,002,736) | (195,560,858) |
| Total Equity | | 64,472,320 | 73,576,944 |
| Total Liabilities and Equity | | \$ 68,816,946 | \$ 82,932,208 |
| Commitments and contingencies | 17 | | |
| Approved on behalf of the Directors: | | | |
| <u>"Denis Arsenault"</u> | | <u>"Mark Eaton"</u> | |
| Director | | Director | |

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

(Expressed in Canadian dollars)

| | Notes | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------|-------------------------------------|----------------|------------------------------------|-----------------|
| | | 2018 | 2017 | 2018 | 2017 |
| Expenses | | | | | |
| Salaries, wages and consulting fees | 16 | 819,371 | 777,493 | 2,545,260 | 3,698,558 |
| Legal and audit fees | | 36,195 | 159,086 | 186,203 | 577,662 |
| General and administration | | 332,784 | 430,410 | 1,135,154 | 1,695,830 |
| Depreciation | | 25,472 | 38,328 | 75,844 | 125,880 |
| Share-based payments | 10,11 | 286,443 | 452,692 | 842,358 | 3,431,882 |
| Exploration and evaluation expenses | 6 | 745,318 | 746,863 | 2,373,851 | 2,591,717 |
| Engineering studies | 6 | - | - | - | 142,991 |
| Foreign exchange (income)/loss | | (117,487) | 191,362 | (601,190) | 371,246 |
| Loss from operations | | (2,128,096) | (2,796,234) | (6,557,480) | (12,635,766) |
| Interest income | | 285,162 | 183,509 | 810,362 | 547,203 |
| Net loss for the period | | (1,842,934) | (2,612,725) | (5,747,118) | (12,088,563) |
| Other Comprehensive Income/(Loss) | | | | | |
| Items that may be reclassified to profit/loss: | | | | | |
| Exchange differences on translating foreign operations | | (217,673) | (409,196) | 368,208 | (741,532) |
| Comprehensive loss for the period | | \$ (2,060,607) | \$ (3,021,921) | \$ (5,378,910) | \$ (12,830,095) |
| Loss per share: | | | | | |
| Basic and diluted | 13 | \$ (0.00) | \$ (0.01) | \$ (0.01) | \$ (0.03) |
| Weighted average number of shares outstanding: | | | | | |
| Basic and diluted | | 442,631,915 | 465,589,915 | 457,769,058 | 465,589,915 |

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

(Expressed in Canadian dollars)

| | | Nine months ended September 30, | |
|---|-------|------------------------------------|----------------------|
| | Notes | 2018 | 2017 |
| Cash provided by (used in) operations: | | | |
| Net (loss) | | \$ (5,747,118) | \$ (12,088,563) |
| Items not involving cash: | | | |
| Share-based payments | 10,11 | 842,358 | 3,431,882 |
| Depreciation | 7 | 75,844 | 125,880 |
| Interest income | | (810,362) | (547,203) |
| Interest income received | | 611,461 | 503,739 |
| Unrealized (gain)/loss on foreign exchange | | (246,753) | 142,354 |
| Working capital adjustments: | | | |
| Change in prepaid expenses and sundry receivables | | 31,012 | 22,641 |
| Change in accounts payables and accrued liabilities | | (586,872) | (48,571) |
| Net cash (used in) operating activities | | (5,830,430) | (8,457,841) |
| Investing activities | | | |
| Expenditures on property, plant and equipment | 7 | (1,399,529) | (1,716,808) |
| Development expenditures on mineral property | | - | (3,488,528) |
| Promissory note receivable | 5 | (10,000,000) | - |
| Net cash (used in) investing activities | | (11,399,529) | (5,205,336) |
| Financing activities | | | |
| Cost of issue | | - | (532,754) |
| Repurchase and cancellation of shares | 9 | (5,119,834) | - |
| Purchase of shares held in trust for settlement of share-based payments | 11 | (4,961,668) | (226,094) |
| Net cash (used in) financing activities | | (10,081,502) | (758,848) |
| Change in cash and cash equivalents | | (27,311,461) | (14,422,025) |
| Cash and cash equivalents, beginning of the period | | 65,093,701 | 82,385,921 |
| Effect of exchange rate on cash held | | (59,050) | (6,686) |
| Cash and cash equivalents, end of the period | | \$ 37,723,190 | \$ 67,957,210 |
| Cash and cash equivalents are comprised of: | | | |
| Cash in bank | | \$ 37,399,187 | \$ 67,870,427 |
| Short-term money market instruments | | \$ 324,003 | \$ 86,783 |
| | | \$ 37,723,190 | \$ 67,957,210 |

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

(Expressed in Canadian dollars)

| | Number of Shares | Share Capital | Contributed Surplus | Share-Based Payments Reserve | Accumulated Other Comprehensive Income | Deficit | Total |
|---|---------------------|----------------|------------------------|------------------------------------|---|------------------|---------------|
| Balance, December 31, 2017 | 465,589,915 | \$ 264,043,853 | \$ (680,651) | \$ 5,044,952 | \$ 729,648 | \$ (195,560,858) | \$ 73,576,944 |
| Share-based compensation | - | - | - | 413,184 | - | - | 413,184 |
| Expiry of stock options | - | - | - | (1,305,240) | - | 1,305,240 | - |
| Purchase of shares held in trust for settlement of share-based payments | - | - | (4,961,668) | - | - | - | (4,961,668) |
| Value of DSUs transferred from liability | - | - | 5,942,604 | - | - | - | 5,942,604 |
| Repurchase and cancellation of shares | (22,958,000) | (5,119,834) | - | - | - | - | (5,119,834) |
| Other comprehensive income | - | - | - | - | 368,208 | - | 368,208 |
| Net loss | - | - | - | - | - | (5,747,118) | (5,747,118) |
| Balance, September 30, 2018 | 442,631,915 | \$ 258,924,019 | \$ 300,285 | \$ 4,152,896 | \$ 1,097,856 | \$ (200,002,736) | \$ 64,472,320 |
| Balance, December 31, 2016 | 465,589,915 | \$ 264,043,853 | \$ (454,557) | \$ 6,790,425 | \$ 1,432,903 | \$ (185,940,596) | \$ 85,872,028 |
| Share-based compensation | - | - | - | 915,588 | - | - | 915,588 |
| Valuation allocation for expiry of options | - | - | - | (2,868,530) | - | 2,868,530 | - |
| Purchase of shares held in trust for settlement of share-based payments | - | - | (226,094) | - | - | - | (226,094) |
| Other comprehensive income | - | - | - | - | (741,532) | - | (741,532) |
| Net loss | - | - | - | - | - | (12,088,563) | (12,088,563) |
| Balance, September 30, 2017 | 465,589,915 | \$ 264,043,853 | \$ (680,651) | \$ 4,837,483 | \$ 691,371 | \$ (195,160,629) | \$ 73,731,427 |

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

Belo Sun Mining Corp.
Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2018 and 2017
(Expressed in Canadian dollars unless otherwise noted)

1. Nature of operations

Belo Sun Mining Corp. (“Belo Sun” or the “Company”), through its subsidiaries (Note 16), is a gold exploration and development company engaged in the exploration and development of properties located in Brazil. The Volta Grande Gold project moved to the development stage in 2017 (Note 6). Other projects are in the exploration and evaluation stage. The Company is a publicly listed company incorporated in the Province of Ontario. The Company’s shares are listed on the Toronto Stock Exchange and trade under the symbol “BSX”. The Company’s head office is located at 65 Queen Street West, 8th Floor, Toronto, Ontario, Canada, M5H 2M5.

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

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

2. Significant accounting policies

a) Statement of compliance

These condensed interim consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”). The policies applied in these condensed interim consolidated financial statements are based on International Financial Reporting Standards (“IFRS”) issued and outstanding as at September 30, 2018. The policies as set out in the Company’s Annual Consolidated Financial Statements for the twelve months ended December 31, 2017 were consistently applied to all the periods presented unless otherwise noted below. The Board of Directors approved these condensed interim consolidated financial statements for issue on November 8, 2018.

b) Basis of preparation

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

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

Belo Sun Mining Corp.
Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2018 and 2017
(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

c) New and future accounting policies

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

New standards and amendments adopted:

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

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

Standards and amendments to be adopted:

IFRS 16 – Leases (“IFRS 16”) replaces IAS 17, Leases (“IAS 17”). The new model requires the recognition of almost all lease contracts on a lessee’s statement of financial position as a lease liability reflecting future lease payments and a ‘right-of-use asset’ with exceptions for certain short-term leases and leases of low-value assets. In addition, the lease payments are required to be presented on the statement of cash flow within operating and financing activities for the interest and principal portions, respectively. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of the adoption of IFRS 16.

Belo Sun Mining Corp.
Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2018 and 2017
(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

d) Principles of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

e) Significant accounting judgments, estimates and assumptions

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

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

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

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

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

Belo Sun Mining Corp.
Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2018 and 2017
(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

• Recognition of deferred tax assets

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company reassesses unrecognized income tax assets at each reporting period.

• Title to land

In assessing the recognition of land acquired with deferred payment terms as an asset, management must make an assumption as to whether the title of the land has passed. Management has determined that the Company has obtained title to the land upon execution of the land purchase agreements as outlined within the agreements themselves.

• Share-based payments

Management determines costs for share-based payments using market-based valuation techniques. The fair value of the market-based and performance-based share awards are determined at the date of grant using generally accepted valuation techniques. Assumptions are made and judgment used in applying valuation techniques. These assumptions and judgments include estimating the future volatility of the stock price, expected dividend yield, future employee turnover rates and future employee stock option exercise behaviours and corporate performance. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates. As at September 30, 2018, the valuation of the Deferred Share Units (“DSUs”) (Note 11) uses the assumption that they will be settled in shares.

• Assessment of the project stage for mineral properties and activities

In determining whether the Company is in the exploration and evaluation stage or the development stage, management must make an assessment as to whether the technical feasibility and commercial viability of extracting the mineral resource are demonstrable. Management assesses several considerations including technical studies performed by consultants and the status of licences to make this assessment. Effective February 2, 2017, management’s assessment was that the Company has moved into the development stage on the Volta Grande project as the Company has received its construction licence and has awarded a contract for the first phase of Engineering, Procurement and Construction (EPC), despite the interim suspension of the licence (Note 6).

• Estimation of asset lives and depreciation and amortization

Depreciation expenses are allocated based on assumed asset lives and depreciation rates. Should the asset life or depreciation rate differ from the initial estimate, an adjustment would be made in the statement of comprehensive loss.

Belo Sun Mining Corp.
Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2018 and 2017
(Expressed in Canadian dollars unless otherwise noted)

2. Significant accounting policies (continued)

- Determination of functional currency
Under IFRS, each entity within the Company has its results measured using the currency of the primary economic environment in which the entity operates (the “functional” currency). Judgment is necessary in assessing each entity’s functional currency. The Company considers the currency of expenses and outflows, as well as financing activities as part of its decision-making process.
- Contingencies
Refer to Note 17.

f) Presentation and functional currency

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

3. Prepaid expenses and sundry receivables

| | September 30, 2018 | December 31, 2017 |
|--|--------------------|-------------------|
| Amounts receivables and other advances | \$ 15,525 | \$ 46,950 |
| Reimbursable court fees pending appeal | 51,623 | 48,346 |
| HST receivable | 105,460 | 120,672 |
| Prepaid insurance | 49,334 | 36,986 |
| | \$ 221,942 | \$ 252,954 |

The Company paid fees in prior years with respect to appeal proceedings which are expected to be reimbursed. During the nine months ended September 30, 2018, the Company lost some of their appeals resulting in the expense of R\$43,354 (\$14,784). The Company expects to be reimbursed the balance, R\$92,663 (\$29,837) (2017: R\$127,664 (\$48,346)), upon successful judgment. The Company also made a deposit of R\$67,656 (\$21,786) with respect to a Departamento Nacional de Produção Mineral (“DNPM”) lawsuit which is expected to be refunded upon successful judgement.

4. Term investment

The investment consists of a term deposit with Banco do Brasil SA to fund the potential amounts owing to Companhia de Pesquisa de Recursos Minerais (“CPRM”). As at September 30, 2018, the balance in this account was R\$1,709,785 (\$550,551) (December 31, 2017: R\$1,642,084 (\$621,857)) and the Company earned 4.59% in interest for the nine months ended September 30, 2018 (September 30, 2017: 7.84%). The Company intends to renew the term deposit on maturity because it is security against the potential amount owing to the CPRM (Note 8), a Brazilian state-owned company to which the Company is committed to paying royalties if a mineable deposit on the Volta Grande Property is put into production.

Belo Sun Mining Corp.
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5. Promissory note receivable

In April 2018, certain directors and officers of the Company (“the Supporting Directors”) agreed to acquire an aggregate of 29,850,746 common shares of the Company at a price of \$0.335 per share by a private purchase from an existing shareholder for the purposes of supporting the Company’s share price and further align their interests with those of the Company’s shareholders. The Supporting Directors each acquired the number of common shares as follows: Stan Bharti 12,932,835 common shares; Peter Tagliamonte 12,932,835 common shares; Denis Arsenault 2,985,076 common shares; Mark Eaton 1,000,000 common shares. With their current holdings of stock options and DSUs, assuming the exercise or conversion thereof into common shares, the aggregate holding of the Supporting Directors will be 13.96% on a semi-diluted basis.

To facilitate the Supporting Directors with the foregoing purchases, the Company loaned them an aggregate amount of \$10,000,000. Unsecured promissory notes have been entered into with each of the Supporting Directors for their respective loans. Under the terms of the promissory notes, the Company will receive a per annum interest rate of LIBOR plus 1%, payable on each one-year anniversary of the loans. The principal amount of the loans will be due and payable, together with all accrued and unpaid interest thereon, on April 23, 2020.

As at September 30, 2018, the Company recognized a carrying value of \$10,174,467 with respect to these promissory notes. Interest income of \$103,368 and \$174,467 was accrued for the three and nine months ended September 30, 2018 respectively.

6. Mineral property development and exploration and evaluation

The Company determined that it moved into the development stage for its Volta Grande Project upon receiving its construction license in February 2017 and awarding a contract for the first phase of EPC, despite the interim suspension of the license received in April 2017. The Company appealed the suspension and, in December 2017, received notice that the suspension would be upheld until an indigenous study was completed in accordance with regulatory guidelines. During the nine months ended September 30, 2018, the Company focused its efforts on the indigenous study, and therefore did not incur any development costs during the period. Costs related to the indigenous study and other site costs were expensed to the consolidated statement of comprehensive loss as exploration and evaluation expenses. Exploration and evaluation expenditures, including engineering costs prior to the capitalization decision, expensed immediately in the consolidated statement of comprehensive loss for the three and nine months ended September 30, 2018 amounted to \$745,318 and \$2,373,851 respectively (three and nine months ended September 30, 2017: \$746,863 and \$2,734,708).

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

7. Property, plant and equipment

| <i>Cost</i> | Vehicles | Furniture & equipment | Mining equipment | Mine assets under construction | Land | Total |
|--|-----------|-----------------------|------------------|--------------------------------|--------------|--------------|
| Balance at December 31, 2017 | 505,791 | 1,742,577 | 705,344 | 5,738,800 | 9,901,573 | 18,594,085 |
| Additions | - | 2,617 | - | - | 2,771,075 | 2,773,692 |
| Disposals | - | - | - | - | - | - |
| FX adjustment | (137,117) | (460,997) | (195,377) | 48,375 | 790,078 | 44,962 |
| Balance at September 30, 2018 | 368,674 | 1,284,197 | 509,967 | 5,787,175 | 13,462,726 | 21,412,739 |
| <i>Accumulated depreciation and impairment</i> | | | | | | |
| Balance at December 31, 2017 | 505,791 | 538,782 | 585,816 | - | - | 1,630,389 |
| Charge for the period | - | 58,527 | 17,317 | - | - | 75,844 |
| Disposals | - | - | - | - | - | - |
| FX adjustment | (137,117) | (142,630) | (160,543) | - | - | (440,290) |
| Balance at September 30, 2018 | \$368,674 | \$ 454,679 | \$ 442,590 | \$ - | \$ - | \$ 1,265,943 |
| Net book value as at December 31, 2017 | \$ - | \$ 1,203,795 | \$ 119,528 | \$ 5,738,800 | \$ 9,901,573 | \$16,963,696 |
| Net book value as at September 30, 2018 | \$ - | \$ 829,518 | \$ 67,377 | \$ 5,787,175 | \$13,462,726 | \$20,146,796 |

During the nine months ended September 30, 2018, the Company acquired a 3,000 hectare land package for R\$7,000,000 (\$2,771,075). The Company made payments of R\$3,615,949 (\$1,396,985) against this purchase as at September 30, 2018, with a balance owing of R\$3,384,051 (\$1,089,664) payable in instalments.

Since the mining property is in the development stage, the mine assets under construction are not amortized (Note 17(c)).

8. Accounts payable and accrued liabilities

| <u>SHORT TERM</u> | September 30, 2018 | December 31, 2017 |
|--|---------------------|---------------------|
| Mineral properties suppliers and contractors | \$ 442,457 | \$ 721,842 |
| Accrued royalties (Note 17(a)) | 1,959,687 | 2,256,410 |
| Land acquisition costs payable | 1,089,664 | - |
| Property taxes | 553,236 | 523,122 |
| DNPM taxes | 42,567 | 50,063 |
| Corporate payables | 196,795 | 178,398 |
| DSU liability (Note 11) | - | 4,482,766 |
| Audit and other accruals | 60,220 | 58,000 |
| TOTAL | \$ 4,344,626 | \$ 8,270,601 |

| <u>LONG TERM</u> | September 30, 2018 | December 31, 2017 |
|-------------------------|--------------------|-------------------|
| DSU liability (Note 11) | \$ - | \$ 1,084,663 |

Belo Sun Mining Corp.
Notes to the Condensed Interim Consolidated Financial Statements
September 30, 2018 and 2017
(Expressed in Canadian dollars unless otherwise noted)

9. Share capital

| | Number of Shares | Amount |
|---------------------------------------|---------------------|-----------------------|
| Balance, December 31, 2016 and 2017 | 465,589,915 | \$ 264,043,853 |
| Repurchase and cancellation of shares | (22,958,000) | (5,119,834) |
| Balance, September 30, 2018 | 442,631,915 | \$ 258,924,019 |

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

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

10. Share-based payments reserve

Stock options

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

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

| | Number of Options | Weighted average exercise prices | Value of options | TOTAL VALUE |
|---------------------------|----------------------|-------------------------------------|---------------------|---------------------|
| December 31, 2017 | 19,869,333 | \$0.40 | \$ 5,044,952 | \$ 5,044,952 |
| Value of vesting options | 250,000 | \$0.23 | 413,184 | 413,184 |
| Expired | (2,784,000) | \$0.61 | (1,305,240) | (1,305,240) |
| September 30, 2018 | 17,335,333 | \$0.36 | \$ 4,152,896 | \$ 4,152,896 |

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10. Share-based payments reserve (continued)

The following stock options were in existence as at September 30, 2018:

| Number outstanding | Number exercisable | Grant date | Expiry date | Exercise price | Expected volatility | Expected life (yrs) | Expected dividend yield | Risk-free interest rate |
|--------------------|--------------------|------------|-------------|----------------|---------------------|---------------------|-------------------------|-------------------------|
| 4,955,000 | 4,955,000 | 19-Nov-14 | 19-Nov-19 | \$ 0.12 | 86% | 5 | 0% | 1.53% |
| 6,890,000 | 6,890,000 | 6-Apr-15 | 6-Apr-20 | \$ 0.22 | 86% | 5 | 0% | 0.76% |
| 550,000 | 550,000 | 8-Jun-15 | 8-Jun-20 | \$ 0.22 | 85% | 5 | 0% | 1.02% |
| 4,690,333 | 3,126,889 | 14-Nov-16 | 14-Nov-21 | \$ 0.85 | 83% | 5 | 0% | 0.96% |
| 250,000 | 250,000 | 15-Jun-18 | 15-Jun-23 | \$ 0.23 | 75% | 5 | 0% | 2.08% |
| 17,335,333 | 15,771,889 | | | | | | | |

Fair value of share options granted in the period:

During the three and nine months ended September 30, 2018, nil and 250,000 stock options were granted and an accrual for vesting options was recorded resulting in stock-based compensation expense of \$87,278 and \$413,184 for the three and nine months ended September 30, 2018 respectively (three and nine months ended September 30, 2017: no options granted and a vesting expense of \$227,173 and \$915,588 respectively). The weighted average life of the outstanding options at September 30, 2018 is 1.90 years (December 31, 2017: 2.40 years).

11. Contributed surplus

Deferred Share Unit Incentive Plan

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

In April 2018, the Company purchased, through an independent trustee, 14,700,633 shares of the Company from the secondary market at a cost of \$4,961,668 (nine months ended September 30, 2017: 259,500 shares at a cost of \$226,094) with the intent of using these shares to satisfy the DSU obligations when they become due. Previously, the Company had been settling DSUs in cash. As a result of this change, the estimated fair value of the vested DSUs as well as an accrual for unvested DSUs on the date of change was reclassified from accrued liabilities to equity. The estimated fair value recognized was \$0.37 per unit, based on the market value of the Company’s shares on the date of change. Further vesting charges are and will be applied against contributed surplus effective the date of change.

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11. Contributed surplus (continued)

As at September 30, 2018, 15,609,133 shares are held in trust at a total recorded value of \$5,642,319 (December 31, 2017: 908,500 shares at a value of \$680,651).

DSU activity during the period:

| | Number of DSUs |
|---------------------------|-------------------|
| December 31, 2017 | 17,314,000 |
| Granted | 133,000 |
| Paid | - |
| Forfeited | (86,250) |
| September 30, 2018 | 17,360,750 |

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

The following table displays the vesting activity for outstanding DSUs:

| | Vested | Unvested | Total |
|---------------------------------|-------------------|------------------|-------------------|
| December 31, 2017 | 7,404,500 | 9,909,500 | 17,314,000 |
| Vested, new DSUs | 44,333 | 88,667 | 133,000 |
| Vested, previously granted DSUs | 4,328,500 | (4,328,500) | - |
| Forfeited | - | (86,250) | (86,250) |
| September 30, 2018 | 11,777,333 | 5,583,417 | 17,360,750 |

Anticipated future vesting:

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

During the three and nine months ended September 30, 2018, \$199,165 and \$429,174 respectively was recorded as stock-based compensation expense related to DSUs on the consolidated statements of comprehensive loss (three and nine months ended September 30, 2017: \$225,519 and \$2,516,294 respectively). Of the stock-based compensation expense, amounts related to movements in fair value (up to the date of the reclassification to equity) and vesting are reflected below.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------|-------------------------------------|------------------|------------------------------------|--------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Change related to vesting | \$199,165 | \$694,754 | \$778,125 | \$3,345,762 |
| Movements in fair value | - | (469,236) | (348,951) | (829,469) |
| | <u>\$199,165</u> | <u>\$225,519</u> | <u>\$429,174</u> | <u>\$2,516,294</u> |

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12. Operating segments

Geographical information

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

| | Current assets | Property, plant and equipment | Other non-current assets | Total Assets |
|---------------------------|----------------------|-------------------------------|--------------------------|----------------------|
| <u>September 30, 2018</u> | | | | |
| Canada | \$ 37,529,854 | \$ 8,886 | \$ 10,174,467 | \$ 47,713,207 |
| Brazil | 415,278 | 20,137,910 | 550,551 | 21,103,739 |
| | <u>\$ 37,945,132</u> | <u>\$ 20,146,796</u> | <u>\$ 10,725,018</u> | <u>\$ 68,816,946</u> |
| <u>December 31, 2017</u> | | | | |
| Canada | \$ 64,702,013 | \$ 12,162 | \$ - | \$ 64,714,175 |
| Brazil | 644,642 | 16,951,534 | 621,857 | 18,218,033 |
| | <u>\$ 65,346,655</u> | <u>\$ 16,963,696</u> | <u>\$ 621,857</u> | <u>\$ 82,932,208</u> |

13. Loss per share

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

14. Financial instruments

Financial assets and financial liabilities as at September 30, 2018 were classified as follows:

| September 30, 2018 | Other liabilities | Assets /(liabilities) at fair value through profit/loss | Total |
|--|-------------------|---|---------------|
| Cash and cash equivalents | \$ - | \$ 37,723,190 | \$ 37,723,190 |
| Promissory notes receivable | - | 10,174,467 | 10,174,467 |
| Term investment | - | 550,551 | 550,551 |
| Accounts payable and accrued liabilities | 4,344,626 | - | 4,344,626 |

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

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14. Financial instruments (continued)

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 – Inputs for the asset or liability that are not based on observable market data.

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

At September 30, 2018, financial instruments that are carried at fair value, consisting of cash and cash equivalents, term investment and promissory notes receivable have been classified as Level 1 within the fair value hierarchy. There were no transfers between levels during the nine months ended September 30, 2018.

The Company's risk exposures and their impacts on the Company's financial instruments are summarized below. There have been no significant changes in the risks, objectives, policies and procedures for managing risk during the nine months ended September 30, 2018.

Credit risk

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

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

Liquidity risk

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

As at September 30, 2018, the Company had current assets of \$37,945,132 to settle current liabilities of \$4,344,626. Approximately \$3,600,000 of the Company's financial liabilities as at September 30, 2018 have contractual maturities of less than 30 days and are subject to normal trade terms. Of this amount, approximately \$1,960,000 has been payable for over 180 days.

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14. Financial instruments (continued)

Market risk

(a) Interest rate risk

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

Based on cash and cash equivalent balances on hand at September 30, 2018, a 0.1% change in interest rates could result in a corresponding change in net loss of approximately \$38,000 (December 31, 2017 - \$65,000).

(b) Currency risk

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

A strengthening of \$0.01 in the United States dollar against the Brazilian Real would have increased net loss by approximately \$96,000 for the nine months ended September 30, 2018 (September 30, 2017 - \$65,000). A strengthening of \$0.01 in the Canadian dollar against the United States dollar would have decreased other comprehensive income by approximately \$24,000 for the nine months ended September 30, 2018 (September 30, 2017 - \$41,000).

15. Capital management

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

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

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

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15. Capital management (continued)

Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company. There were no changes in the Company's approach to capital management during the nine months ended September 30, 2018. The Company is not subject to externally imposed capital requirements.

16. Related party disclosures

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

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

During the three and nine months ended September 30, 2018 and 2017, the Company entered into the following transactions in the ordinary course of business with related parties that are not subsidiaries of the Company.

| | Purchases of goods/services | | | |
|-----------------------------|-----------------------------|------------|-------------------|------------|
| | Three months ended | | Nine months ended | |
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| 2227929 Ontario Inc. | \$ 120,101 | \$ 122,928 | \$ 361,355 | \$ 339,347 |
| Forbes & Manhattan, Inc. | 75,000 | 75,000 | \$ 225,000 | 475,000 |
| Les Consultants Geo Habilis | - | 9,000 | \$ - | 12,600 |

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

Mr. Stan Bharti, a director of the Company, is the Executive Chairman of Forbes & Manhattan, Inc., a corporation that provides strategic planning and business development services to the Company. Forbes & Manhattan, Inc. charges a monthly consulting fee of \$25,000. During the three and nine months ended September 30, 2018, the Company paid bonuses of \$nil to Mr. Bharti through Forbes & Manhattan, Inc. (September 30, 2017: \$nil and \$250,000 respectively).

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

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16. Related party disclosures (continued)

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

| | Amounts owed by related parties | | Amounts owed to related parties | |
|---------------------------------------|---------------------------------|-----------|---------------------------------|-----------|
| | 30-Sep-18 | 31-Dec-17 | 30-Sep-18 | 31-Dec-17 |
| Directors and officers of the Company | 10,174,467 | - | 65,250 | 82,537 |
| 2227929 Ontario Inc. | - | - | - | 351 |

Amounts owed by related parties reflect the promissory notes entered into with directors of the Company in April 2018 (see Note 5).

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

Compensation of key management personnel of the Company

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

| | Three months ended | | Nine months ended | |
|----------------------|--------------------|---------------------|---------------------|---------------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Short-term benefits | \$ 543,247 | \$ 579,500 | \$ 1,629,747 | \$ 2,761,750 |
| Share-based payments | 90,450 | 333,813 | 285,641 | 950,304 |
| DSU expense | 190,974 | 217,438 | 420,545 | 2,410,953 |
| | <u>\$ 824,672</u> | <u>\$ 1,130,751</u> | <u>\$ 2,335,934</u> | <u>\$ 6,123,007</u> |

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

17. Commitments and contingencies

- (a) Under a renegotiated agreement with CPRM in March 2008, the Company maintains an interest-bearing term deposit to cover the future royalty payments, starting March 2008. As at September 30, 2018, no royalty payments have been paid. See notes 4 and 6.
- (b) The Company is party to certain management contracts. These contracts require that additional payments of up to \$12,600,000 be made upon the occurrence of certain events such as a change of control. As the likelihood of these events taking place is uncertain and it is not probable that there will be any outflow of resources to settle the commitment, the contingent payments have not been reflected in these condensed interim consolidated financial statements. Minimum commitments remaining under these contracts were approximately \$800,000 all due within one year.

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17. Commitments and contingencies (continued)

- (c) The Company is party to an agreement to purchase a SAG mill, which was amended during the period. The Company will be required to make payments of US\$610,000 on the date that the construction license is in place for 90 consecutive days; US\$1,836,000 on the date that the construction license is in place for 180 consecutive days; US\$1,836,000 on the date that the construction license is in place for 270 consecutive days; and US\$1,836,000 on the date that the construction license is in place for 360 consecutive days.
- (d) The Federal Constitution of Brazil has established that the States, municipalities, federal district and certain agencies of the federal administration are entitled to receive royalties for the exploitation of mineral resources by holders of mining concessions (including extraction permits). The royalty rate for gold is currently 1.5% - Federal law 13,540/17 - arising from the sale of the mineral product, less the sales taxes of the mineral product. No royalties are currently due.
- (e) Company is, from time to time, involved in various claims and legal proceedings. The Company cannot reasonably predict the likelihood or outcome of these activities. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which may be required to be paid by reasons thereof, will have a material effect on the financial condition or future results of operations. As at September 30, 2018, no amounts have been accrued related to such matters.
- (f) The Company's mining, exploration and development activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company conducts its operations so as to protect public safety, health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.