

Luna Gold Corp.

Condensed Consolidated Financial Statements (Unaudited)

September 30, 2014 – Third Quarter

(tabular amounts expressed in thousands of U.S. dollars, except per share amounts and where indicated)

Luna Gold Corp.

Condensed Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2014 and 2013 (Unaudited)

(amounts expressed in thousands of U.S. dollars, except per share amounts and where indicated)

	Note	Three months ended September 30		Nine months ended September 30	
		2014	2013	2014	2013
Revenue					
Gold sales		\$ 20,189	\$ 23,056	\$ 62,204	\$ 71,157
Operating expenses					
Production costs		(22,249)	(14,762)	(52,673)	(42,054)
Depletion and amortization		(1,104)	(1,217)	(3,645)	(5,646)
Gross profit		(3,164)	7,077	5,886	23,457
Exploration		(515)	(663)	(1,208)	(3,676)
General and administrative		(2,439)	(2,123)	(7,023)	(6,058)
Share-based compensation	10	(8)	(901)	(281)	(1,622)
Impairment of property, plant and equipment	5	(102,000)	-	(102,000)	-
Operating (loss) profit		(108,126)	3,390	(104,626)	12,101
Foreign exchange (loss) gain		(829)	(173)	866	(223)
Financial instruments (loss) gain	13	(324)	(1,861)	3,496	1,822
Finance income		175	198	592	698
Finance cost	12	(572)	(273)	(1,426)	(1,258)
Other expenses	6(a)	-	-	-	(786)
(Loss) income before income taxes		\$ (109,676)	\$ 1,281	\$ (101,098)	\$ 12,354
Income tax expense		(675)	(1,084)	(1,685)	(3,998)
Net (loss) income and comprehensive (loss) income		\$ (110,351)	\$ 197	\$ (102,783)	\$ 8,356
Net (loss) income per common share					
Basic		\$ (0.83)	\$ 0.00	\$ (0.84)	\$ 0.08
Fully diluted		\$ (0.83)	\$ 0.00	\$ (0.84)	\$ 0.08
Weighted average shares outstanding (000's)					
Basic		133,212	105,028	122,287	105,012
Fully diluted		133,212	105,028	122,287	105,304
Total shares issued and outstanding (000's)		141,478	105,028	141,478	105,028

The accompanying notes are an integral part of these condensed consolidated financial statements.

Luna Gold Corp.

Condensed Consolidated Statements of Financial Position

As at September 30, 2014 and December 31, 2013 (Unaudited)

(expressed in thousands of U.S. dollars)

	Note	September 30, 2014	December 31, 2013
Assets			
Current assets			
Cash and cash equivalents		\$ 22,244	\$ 5,984
Accounts receivable and prepaid expenses	3	4,532	5,957
Current portion of derivative asset	13	3,094	2,717
Other financial assets	13	2,004	2,214
Inventory	4	22,746	19,687
		54,620	36,559
Property, plant and equipment	5	70,006	156,416
Derivative asset	13	1,920	3,960
Other financial assets	13	3,477	3,163
Deferred tax asset		-	1,685
Other assets		16,477	9,056
Total assets		\$ 146,500	\$ 210,839
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 13,916	\$ 15,435
Current portion of long-term debt	6	26,925	6,089
Current portion of derivative liabilities	13	3,775	3,450
Current portion of other liabilities	7	265	299
		44,881	25,273
Long-term debt	6	21,848	34,323
Derivative liabilities	13	3,182	6,986
Other liabilities	7	7,129	7,261
Restoration and other provisions	8	2,811	3,455
Total liabilities		79,851	77,298
Shareholders' equity			
Share capital	9	176,020	141,171
Contributed surplus		15,589	14,547
Deficit		(124,960)	(22,177)
Total shareholders' equity		66,649	133,541
Total liabilities and shareholders' equity		\$ 146,500	\$ 210,839

Approved by the Board of Directors

“Steven Krause” Director

“Wayne Kirk” Director

The accompanying notes are an integral part of these condensed consolidated financial statements.

Luna Gold Corp.

Condensed Consolidated Statements of Changes in Shareholders' Equity and Deficit

For the nine months ended September 30, 2014 and 2013 (Unaudited)

(expressed in thousands of U.S. dollars)

		Attributable to equity holders of the Company				
	Note	Shares (000's)	Share capital	Contributed surplus	Deficit	Total
Balance at December 31, 2013		105,028	\$ 141,171	\$ 14,547	\$ (22,177)	\$ 133,541
Net loss for the period		-	-	-	(102,783)	(102,783)
Share-based compensation		-	-	395	-	395
Restricted share units	10(b)	-	-	647	-	647
Issue of share capital, net	9	36,450	34,849	-	-	34,849
Balance at September 30, 2014		141,478	\$ 176,020	\$ 15,589	\$ (124,960)	\$ 66,649

Balance at December 31, 2012		104,945	\$ 140,833	\$ 12,484	\$ (30,016)	\$ 123,301
Net income for the period		-	-	-	8,356	8,356
Stock options exercised		83	338	(119)	-	219
Share-based compensation		-	-	1,502	-	1,502
Balance at September 30, 2013		105,028	\$ 141,171	\$ 13,867	\$ (21,660)	\$ 133,378

The accompanying notes are an integral part of these condensed consolidated financial statements.

Luna Gold Corp.

Condensed Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2014 and 2013 (Unaudited)

(expressed in thousands of U.S. dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2014	2013	2014	2013
Cash flows from operating activities					
Net (loss) income		\$ (110,351)	\$ 197	\$ (102,783)	\$ 8,356
Items not affecting cash					
Income tax expense		675	1,084	1,685	3,998
Depletion and amortization		1,104	1,217	3,644	5,646
Recognition of other liabilities		(58)	(66)	(166)	(314)
Unrealized foreign exchange losses (gains)		1,080	(645)	(316)	240
Unrealized losses (gains) from financial assets		592	2,208	(3,087)	(2,437)
Share-based compensation		8	902	281	1,623
Finance income		(174)	(198)	(592)	(698)
Finance cost		572	273	1,426	1,258
Impairment of property, plant and equipment	5	102,000	-	102,000	-
Other		2,218	162	2,218	1,910
		(2,334)	5,134	4,310	19,582
Change in non-cash operating working capital					
(Increase) decrease in accounts receivable and prepaid expenses		(1,162)	7,993	(3,995)	2,060
(Increase) in inventory		(3,131)	(1,663)	(4,939)	(5,487)
(Decrease) increase in accounts payable		(159)	834	132	(340)
		(6,786)	12,298	(4,492)	15,815
Cash flows from investing activities					
Payments for mineral properties		(532)	(6)	(2,354)	(489)
Payments for property, plant and equipment		(7,307)	(8,170)	(17,106)	(32,798)
Sandstorm contribution to Phase 1 expansion	5	-	1,676	1,252	2,784
Long-term tax credit receivable		(582)	(1,170)	(2,352)	(2,935)
Proceeds from notes receivable and marketable securities		238	-	1,431	-
		(8,183)	(7,670)	(19,129)	(33,438)
Cash flows from financing activities					
Proceeds from debt, net		(9)	9,800	9,952	38,506
Repayment of debt		(3,149)	(132)	(3,445)	(20,759)
Payment of interest on debt		(594)	(359)	(1,489)	(1,321)
Proceeds from issuance of common shares, net	9	18,068	-	34,849	219
		14,316	9,309	39,867	16,645
(Decrease) increase in cash and cash equivalents		(653)	13,937	16,246	(978)
Cash and cash equivalents - beginning of period		23,182	3,930	5,984	19,334
Effect of exchange rate changes on cash		(285)	261	14	(228)
Cash and cash equivalents - end of period		\$ 22,244	\$ 18,128	\$ 22,244	\$ 18,128

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Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2014 (Unaudited)

(tabular amounts expressed in thousands of U.S. dollars, except per share amounts and where indicated)

1 Nature of operations and going concern

Luna Gold Corp. (the “Company”) is engaged in the operation, exploration, acquisition and development of gold properties. The Company currently has one producing gold mine, several brownfields exploration projects and several exploration projects located in the Luna Greenfields district in northeast Brazil.

The Company’s primary listing is on the Toronto Stock Exchange (“TSX”). The Company’s registered office is at 800 – 543 Granville Street, Vancouver, BC, V6C 1X8, Canada.

These interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company is operating in a declining gold price environment which reduces its cash inflows and has recently experienced increasing unit cash cost of production resulting in operating losses and negative outflows from operating activities for two consecutive quarters. These factors, accompanied with the capital requirements to construct a hard rock processing facility necessary to be able to process the majority of the ore included in the Aurizona reserve, and the need to repay its outstanding debt, has resulted in the Company re-assessing its financial position and requirements over the near term. The Company’s ability to continue as a going concern is dependent upon achieving sufficient operating cash inflows through its mining operations and the position of the lenders of the Corporate Facility. If operating cash inflows cannot be achieved or the lenders of the Corporate Facility request early repayment, the Company must raise additional capital or evaluate strategic alternatives. The Company has no assurance that such actions will be successful or that financing will be available on favourable terms. These circumstances indicate the existence of a material uncertainty which may cast significant doubt as to the ability of the Company to continue as a going concern.

These interim financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern assumption is not appropriate for these financial statements, adjustments would be necessary in the carrying values of assets and liabilities, the reported expenses and the balance sheet classifications used. Such adjustments could be material.

2 Basis of presentation and statement of compliance

The Company prepares the consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (“IAS 34”). These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and accordingly should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2013. The accounting policies applied in these condensed consolidated financial statements are the same as those applied in the Company’s annual consolidated financial statements except as noted below.

Effective January 1, 2014, the Company adopted IFRIC 21 ‘Levies’. This interpretation of IAS 37, ‘Provisions, Contingent Liabilities and Contingent Assets’, applies to the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligating event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. There was no material impact on these condensed consolidated interim financial statements as a result of the adoption of this standard.

Effective January 1, 2014, the Company classifies payments for gold delivered to Sandstorm as well as amortization of other liabilities related to the Sandstorm transaction as revenue rather than a credit to production costs on the consolidated statement of comprehensive income (note 7). All prior year comparative amounts have been recast to conform to the current year presentation of these and certain other amounts.

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company has not yet determined the impact the final standard is expected to have on its consolidated financial statements.

The condensed consolidated financial statements were approved and authorized for issue by the Audit Committee of the Board of Directors on November 12, 2014.

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Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2014 (Unaudited)

(tabular amounts expressed in thousands of U.S. dollars, except per share amounts and where indicated)

3 Accounts receivable and prepaid expenses

	September 30, 2014	December 31, 2013
Trade receivables	\$ 1,047	\$ -
Sandstorm Phase 1 expansion receivables	1,000	887
Value-added tax receivables	876	3,626
Prepaid expenses	1,609	1,444
	\$ 4,532	\$ 5,957

4 Inventory

	September 30, 2014	December 31, 2013
Ore in stockpiles	\$ 2,940	\$ 3,899
Work in progress	2,444	1,063
Finished goods	9,191	5,956
Consumable stores	8,171	8,769
	\$ 22,746	\$ 19,687

5 Property, plant and equipment

	Plant and equipment	Capital work-in-progress	Mineral properties and mine development costs	Total
Cost at December 31, 2013	\$ 73,688	\$ 47,100	\$ 66,861	\$ 187,649
Additions	2,851	17,279	589	20,719
Sandstorm contribution to Phase 1 expansion (i)	-	(1,365)	-	(1,365)
Transfers	6,744	(6,744)	-	-
Cost at September 30, 2014	83,283	56,270	67,450	207,003
Accumulated amortization at December 31, 2013	(16,631)	-	(14,602)	(31,233)
Depletion and amortization for the period	(2,576)	-	(1,188)	(3,764)
Impairment of property, plant and equipment (ii)	(26,646)	(53,871)	(21,483)	(102,000)
Accumulated amortization and impairment at September 30, 2014	(45,853)	(53,871)	(37,273)	(136,997)
Net book value as at December 31, 2013	57,057	47,100	52,259	156,416
Net book value as at September 30, 2014	\$ 37,430	\$ 2,399	\$ 30,177	\$ 70,006

(i) In December 2012, the Company entered into a definitive agreement (the "Amendment Agreement") with Sandstorm to contribute to funding the Phase I expansion at the Aurizona mine. Sandstorm agreed to contribute 17% of the required Phase I expansion capital expenditure to a maximum of \$10.0 million. Sandstorm's contributions are accounted for as a reduction of property, plant and equipment.

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(tabular amounts expressed in thousands of U.S. dollars, except per share amounts and where indicated)

(ii) Impairment of property, plant and equipment

The Company evaluates each asset or cash generating unit (“CGU”) every reporting period to determine whether there are any indications of impairment. If any such indication exists, which is often judgmental, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use. The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, production budgets and forecasts, and life-of-mine estimates.

The Company defines the Aurizona Gold Mine as a CGU and identified the following indications of impairment during the quarter:

- Significant decline in gold price environment;
- Increasing unit cash cost of production resulting in operating losses and cash outflows from operating activities for two consecutive quarters;
- The carrying amount of the net assets of the Company exceeding its market capitalization; and
- The Company’s capital requirements to construct a hard-rock process facility to treat the majority of the ore remaining in the ore body.

As a consequence of the uncertain outlook for the Aurizona Gold Mine operations, a critical review of the carrying value of the CGU was performed and tested for recoverability during the quarter. Recoverability was measured by comparing the carrying value of the Aurizona asset to its value in use which is the estimated after-tax cash flows expected to be generated over the life-of-mine.

The determination of value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, mineral reserves, operating costs, closure and rehabilitation costs and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in the statement of comprehensive income.

Key assumptions used in the determination of value in use were a discount rate of 12% and long-term gold price of \$1,250 per ounce.

Based on the recoverability test performed, the Company recognized a non-cash impairment charge of approximately \$102.0 million to property, plant and equipment, to write down the CGU to its estimated recoverable amount.

6 Long-term debt

	September 30, 2014	December 31, 2013
Corporate Facility (a)	\$ 26,458	\$ 29,090
Sandstorm Debt Facility (b)	21,659	10,200
Finame	514	822
Finance leases	142	300
Total long-term debt	48,773	40,412
Less: current portion	(26,925)	(6,089)
	\$ 21,848	\$ 34,323

a) Corporate Facility

In March 2013, the Company’s wholly owned subsidiary, Aurizona Goldfields Corporation (“AGC”), entered into a \$30.0 million corporate secured revolving facility (the “Corporate Facility”) with Société Générale (Canada Branch) and Mizuho Corporate Bank Ltd. As a result of the WestLB debt settlement, a loss on the settlement of debt of approximately \$0.8 million was recognized in the consolidated statement of comprehensive income for the nine months ended September 30, 2013, representing the write-off of previously deferred financing fees and the settlement of the floating to fixed interest rate swap contracts.

The Corporate Facility matures on June 30, 2016 and carries an interest rate of LIBOR plus 4.25%. The principal amount of the Corporate Facility is repayable in quarterly instalments of \$3.0 million beginning on September 30, 2014 until the maturity date, when the remaining outstanding amount will be due in full. The Company has provided security for the Corporate Facility in the form of a first ranking lien in favour of the Lenders, subject to permitted liens, over all the present and future assets of the Company and its subsidiaries.

Pursuant to the terms of the Corporate Facility, the Company is required to maintain a project life coverage ratio of greater than 1.50, a fixed charge coverage ratio of greater than 1.35, a current ratio of at least 1.10, and a reserve tail ratio of greater than 30% over the life

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(tabular amounts expressed in thousands of U.S. dollars, except per share amounts and where indicated)

of the loan. The Company is not in compliance with these requirements. Accordingly, the Company has classified its debt as a current liability.

b) Sandstorm Debt Facility

In September 2013, AGC, drew down \$10.0 million of a Debt Facility with Sandstorm Gold Ltd. ("Sandstorm"). The purpose of this loan was to provide additional working capital for the Company during the Phase I Expansion period. During the three months ended June 30, 2014, the Company drew down a further \$10.0 million.

The Sandstorm Debt Facility carries an interest rate of 12% per annum, is guaranteed by the Company and its subsidiary Mineracao Aurizona S.A. ("MASA"), and is fully due and payable on June 30, 2017 (the "Maturity Date"). Under the terms of the agreement, Sandstorm has agreed to grant an interest free period of up to 16 months on the portion of the Sandstorm Debt Facility that funds brownfield exploration. As at September 30, 2014, the Company has accrued \$1.7 million of interest due at the Maturity Date.

Under the terms of this agreement, the principal amount and all accrued and unpaid interest, or any portion thereof (the "Exchange Notice Amount"), may, at the option of Sandstorm, be exchanged for common shares of the Company at any time after June 30, 2015 and before the Maturity Date, upon notice to the Company by Sandstorm (the "Exchange Notice Date"), at an exchange price equal to the volume weighted average closing price of the Company's common shares on the TSX over the five trading days immediately prior to the Exchange Notice Date. From the Exchange Notice Date, the Company, at its election, shall have the lesser of 180 days or the days existing to Maturity Date to either (i) exchange the Exchange Notice Amount for common shares of the Company at an exchange price equal to the volume weighted average closing price of the Company's common shares on the TSX over the five trading days immediately prior to the Exchange Notice Date, or (ii) pay in cash the Exchange Notice Amount to Sandstorm. If Sandstorm exercises its option, the Company may elect to issue the shares or settle the conversion amount in cash.

Sandstorm may not acquire shares which would result in it owning more than 20% of the issued and outstanding common shares of the Company, whether purchased pursuant to the exercise of the exchange option or in the open market, without the prior approval of the TSX.

The Company provided security for the Sandstorm Debt Facility in the form of a third ranking lien in favour of Sandstorm, subject to a gold pledge agreement, a mineral rights pledge agreement, a machinery and equipment pledge and guarantee by MASA.

7 Other liabilities

	September 30, 2014	December 31, 2013
Sandstorm transaction	\$ 7,394	\$ 7,560
Less: current portion	(265)	(299)
	\$ 7,129	\$ 7,261

In May 2009, the Company entered into a definitive agreement with Sandstorm Gold Ltd. ("Sandstorm") under which the Company agreed to sell an effective 17% interest in certain reserves and resources of the Aurizona mine to Sandstorm for cash proceeds of \$17.8 million and 5,500,000 Sandstorm common shares.

Of the \$17.8 million payment, \$9.5 million has been recorded as a reduction of property, plant and equipment and is amortized over the life of the reserve as part of depletion expense. The remaining \$8.3 million is recorded as other liabilities and is amortized on a unit of sales basis as a credit to revenues.

As gold is delivered, the Company receives a payment in an amount equal to the lesser of \$400 per ounce and the prevailing spot gold market price. The \$400 per ounce received for gold delivered to Sandstorm is subject to an increase of 1% per annum beginning February 2014. Currently, the Company is receiving \$404 per ounce on gold delivered to Sandstorm.

Sandstorm has been granted a charge on the assets and undertakings of Aurizona that is subordinate to any existing and future bank indebtedness.

If the Company decides to further develop an underground mine at Aurizona, Sandstorm will have the right to purchase an effective 17% interest in the underground mine, whereby 17% of the gold produced will be delivered to Sandstorm at a per-ounce price equal to the lesser of \$500 and the prevailing market price, subject to an increase of 1% per annum beginning on the third anniversary from the date that the underground mine begins commercial production. In addition, Sandstorm will be required to contribute to capital expenditures to construct and develop the underground mine, and towards all actual drilling and other costs incurred to complete the required technical report determining the economic viability of the applicable underground mine option.

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8 Restoration and other provisions

	September 30, 2014	December 31, 2013
Restoration provision	\$ 2,811	\$ 2,676
RSU liability (note 10(b))	-	779
	\$ 2,811	\$ 3,455

9 Share capital

The Company's authorized share capital consists of unlimited common shares without par value. At September 30, 2014, the Company had 141,478,566 shares issued and outstanding. In February 2014, the Company issued 16,950,000 common shares in a public offering at a price of CAD \$1.18 per common share for net proceeds of CAD \$18.6 million. In August 2014, the Company issued 19,500,000 common shares in a private placement offering at a price of CAD \$1.02 per common share for net proceeds of CAD \$19.9 million.

10 Share-based compensation

The Company provides share-based compensation to its directors, officers, employees, or consultants through grants of stock options and restricted share units.

a) Stock options

	September 30, 2014	
	Number of shares (000's)	Weighted average exercise price CAD
Outstanding - beginning of period	9,365	2.61
Granted	2,285	1.15
Forfeited/Expired	(3,364)	2.35
Outstanding - end of period	8,286	2.31

At September 30, 2014, the following stock options were outstanding:

Number of shares (000's)	Vested (000's)	Price per share CAD	Expiry Date
582	582	1.55 – 3.20	Nov - Dec 2014
1,929	1,829	1.55 – 3.15	Jul – Sep 2015
1,220	1,208	2.30 – 3.25	Apr – Oct 2016
1,741	1,543	2.10 – 3.55	Mar – Nov 2017
999	391	1.55 – 3.01	Apr – Aug 2018
1,815	-	1.08 – 1.16	Mar – Jun 2019
8,286	5,553		

	September 30, 2014
Weighted average exercise price for exercisable options	CAD 2.69
Weighted average share price for options exercised	-
Weighted average years to expiry for exercisable options	2.4 years

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(tabular amounts expressed in thousands of U.S. dollars, except per share amounts and where indicated)

The weighted average fair value at date of grant for options granted in the nine months ended September 30, 2014 was \$0.44 (2013 - \$0.71) per option calculated using the Black-Scholes option pricing model with the following assumptions:

	September 30, 2014
Risk-free interest rate	2%
Option expected life	4 years
Expected volatility	55%
Expected dividend	0%

For the three and nine months ended September 30, 2014, the total share-based compensation charges related to options granted to employees and directors was \$0.1 million (2013 - \$0.5 million) and \$0.4 million (2013 - \$1.6 million), respectively.

b) Restricted share units

On June 12, 2014 (the "Modification Date"), the shareholders of the Company voted in favour of amending the terms of the Restricted Share Units ("RSU") plan to permit the settlement of RSU awards, at the discretion of the Board of Directors, in either cash or shares of the Company upon vesting criteria being achieved. As at the Modification Date, the fair value of the RSU liability for services rendered to date, of approximately \$0.6 million, representing 0.6 million units, was reclassified from Other provisions to Contributed Surplus, a component of Shareholders' Equity on the Statement of Financial Position. The remaining fair value of the RSUs, for services to be rendered, representing approximately 0.2 million units, will be recognized as a charge to share-based compensation over the remaining service period until the vesting criteria have been achieved.

For the three and nine months ended September 30, 2014, total compensation expense (recovery) for the RSUs was \$0.1 million (2013 - \$0.4 million) and \$(0.1) million (2013 - \$0.1 million), respectively recorded in share-based compensation in net income.

11 Segmented information

The Company operates in a single segment, the mining and production of gold and brownfield exploration at the Aurizona mine. In addition, the Company has greenfield exploration and corporate activities. The exploration activities include the Luna Greenfields district, located in the same geographical area as the Aurizona mine, and the corporate activities include the evaluation and acquisition of new mineral properties, treasury and finance, regulatory reporting and corporate administration.

12 Finance cost

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Interest expense	\$ (1,211)	\$ (396)	\$ (2,989)	\$ (1,427)
Accreted interest – debt instruments (note 6)	(135)	(120)	(391)	(375)
Accreted interest – restoration provision (note 8)	(91)	(126)	(271)	(328)
	(1,437)	(642)	(3,651)	(2,130)
Less: interest capitalized	865	369	2,225	872
	\$ (572)	\$ (273)	\$ (1,426)	\$ (1,258)

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For the three and nine months ended September 30, 2014 (Unaudited)

(tabular amounts expressed in thousands of U.S. dollars, except per share amounts and where indicated)

13 Financial instruments

a) Derivative assets and liabilities

As required by the Corporate Facility, the Company entered into gold forward and foreign exchange forward contracts until June 2016. The Company has gold forward contracts outstanding to sell 1,914.51 ounces of gold per quarter at a price of \$1,566.98 per ounce and foreign exchange forward contracts outstanding to sell \$6.0 million per quarter into BRL at exchange rates ranging from BRL:USD at 1.99265 to 2.36400 until June 2016.

In May 2014, the Company entered into gold collar option contracts with Société Générale to sell 16,800 ounces of gold over a six month period from July 2014 to December 2014, with a maximum price of \$1,340 per ounce and a floor price of \$1,250 per ounce.

The Company's derivative asset balance consists of:

	September 30, 2014	December 31, 2013
Gold forward contracts	\$ 4,600	\$ 6,677
Gold collar option contracts	414	-
Less: current portion	(3,094)	(2,717)
	\$ 1,920	\$ 3,960

The Company's derivative liability balance consists of:

	September 30, 2014	December 31, 2013
Foreign exchange forward contracts	\$ 6,957	\$ 10,436
Less: current portion	(3,775)	(3,450)
	\$ 3,182	\$ 6,986

b) Financial instruments gain (loss)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Unrealized gain (loss) on gold forward contracts	\$ 987	\$ (2,651)	\$ (2,078)	\$ 4,699
Realized gain on gold forward contracts	663	509	1,637	509
Unrealized (loss) gain on foreign exchange contracts	(1,883)	443	3,477	(5,040)
Realized (loss) on foreign exchange contracts	(461)	-	(1,294)	-
Unrealized gain on gold collar option contracts	658	-	415	-
Realized gain on gold collar option contracts	67	-	67	-
Unrealized (loss) gain on marketable securities	(305)	(162)	1,506	(1,124)
Realized (loss) on marketable securities	(50)	-	(234)	-
Gain on warrant liability	-	-	-	2,778
	\$ (324)	\$ (1,861)	\$ 3,496	\$ 1,822

c) Fair value classification of financial instruments

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are other than quoted prices included in

Luna Gold Corp.

Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2014 (Unaudited)

(tabular amounts expressed in thousands of U.S. dollars, except per share amounts and where indicated)

Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices). Level 3 inputs are for the assets or liabilities that are not based on observable market data (unobservable inputs).

As at September 30, 2014, marketable securities and share consideration are measured in the consolidated statement of financial position at fair value using Level 1 inputs and derivatives are measured using Level 2 inputs. For disclosure purposes, the fair value of the notes receivable and long-term debt are determined using Level 2 inputs. The carrying values of cash and cash equivalents, trade receivables, Sandstorm Phase 1 expansion receivable and accounts payable and accrued liabilities approximate their fair value due to their short terms to maturity.

The following table provides the fair value of each classification of financial instrument:

	September 30, 2014	December 31, 2013
Financial assets:		
Loans and receivables:		
Cash and cash equivalents	\$ 22,244	\$ 5,984
Trade receivables	1,047	-
Sandstorm Phase 1 expansion receivables	1,000	887
Notes receivable	3,751	3,696
Held for trading:		
Marketable securities and share consideration	1,730	1,681
Derivative asset	5,014	6,677
Total financial assets	\$ 34,786	\$ 18,925
Financial liabilities:		
Held for trading:		
Derivative liabilities	\$ 6,957	\$ 10,436
Other:		
Accounts payable and accrued liabilities	13,916	15,435
Long-term debt, including current portion	48,773	40,412
RSU liability (in other provisions)	-	779
Total financial liabilities	\$ 69,646	\$ 67,062