Management's Discussion and Analysis

Third Quarter Ended September 30, 2014

(Expressed in millions of United States dollars, except per share amounts and where otherwise noted)

November 12, 2014

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the condensed consolidated financial statements ended September 30, 2014 and the audited consolidated financial statements for the year ended December 31, 2013 and related notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). For further information on the Company, reference should be made to its continuous disclosure (including its most recently filed annual information form ("AIF"), which are available on SEDAR at www.sedar.com. Information is also available on the Company's website at www.lunagold.com. Information on risks associated with investing in the Company's securities and technical and scientific information under National Instrument 43-101 concerning the Company's material property, including information about mineral resources and reserves, are contained in the Company's most recently filed AIF and technical reports.

THIRD QUARTER 2014 HIGHLIGHTS

		Q3 2014		YTD 2014
Gold production (ounces)		**20,188**		**53,864**
Gold sales, including sales to Sandstorm (ounces)		**17,535**		**54,419**
Finished gold inventory at September 30, 2014 (ounces)		**8,437**		**8,437**
Ratio of waste to ore		**7.0**		**4.6**
Net realized gold price received, including gold sales to Sandstorm (USD per ounce)	**$**	**1,148**	**$**	**1,140**
Total cash cost of production (1) (USD per ounce)	**$**	**1,041**	**$**	**969**
All-in sustaining cost of production (1) (USD per ounce)	**$**	**1,118**	**$**	**1,069**
All-in cost (1) (USD per ounce)	**$**	**1,265**	**$**	**1,222**
Gross profit (USD millions)	**$**	**(3.2)**	**$**	**5.9**
Impairment of property, plant and equipment (USD millions)	**$**	**(102.0)**	**$**	**(102.0)**
Net loss (USD millions)	**$**	**(110.4)**	**$**	**(102.8)**
Loss per share - basic and fully diluted (USD)	**$**	**(0.83)**	**$**	**(0.84)**
Cash flow per share from operating activities before changes in non-cash working capital (1) (USD)	**$**	**(0.02)**	**$**	**0.04**
Cash flow from operating activities before changes in working capital (1) (USD millions)	**$**	**(2.3)**	**$**	**4.3**
Cash flow from operating activities after changes in working capital (1) (USD millions)	**$**	**(6.8)**	**$**	**(4.5)**
Cash flow from financing activities (USD millions)	**$**	**14.3**	**$**	**39.9**
Cash payments on Phase I Expansion (USD millions)	**$**	**(3.6)**	**$**	**(9.6)**
Cash payments on sustaining capital (USD millions)	**$**	**(1.1)**	**$**	**(3.0)**
Cash payments for mineral property development (USD millions)	**$**	**(0.5)**	**$**	**(2.4)**
Cash balance at September 30, 2014 (USD millions)	**$**	**22.2**	**$**	**22.2**

(1) Refer to "Non-IFRS Financial Measures" on Page 15.

Company Developments:

- The Company completed a non-brokered private placement of 19,500,000 common shares priced at $1.02 per share, for gross proceeds of CAD $19.9 million as part of a strategic investment agreement with Sandstorm Gold Ltd. ("Sandstorm") which resulted in Sandstorm becoming the Company's largest shareholder. Pursuant to the Agreement, Sandstorm will have the right to maintain its ownership percentage through future private placements or public offerings and to appoint one member to the Company's Board of Directors if its ownership is greater than 15%. In connection with this transaction, David Awram, Senior Executive Vice President of Sandstorm, was appointed to the Company's Board of Directors. Mr. Luis ("Lucho") Baertl stepped down as Chairman of the Company's Board and was succeeded as Chairman by the Company's former Lead Independent Director, Mr. Steven Krause. Mr. Baertl remains a Director of the Company;
- The Company established a Special Committee (the "Special Committee") comprised of independent members of the Company's Board of Directors (Messrs. Wayne Kirk (Chairman), Steven Krause, Bill Lindqvist and Federico Schwalb) with a mandate to explore all strategic alternatives available to the Company to offer greater value to the Company's shareholders. The Special Committee has engaged Canaccord Genuity Corp. as its financial advisor and Blake, Cassels & Graydon LLP as its legal counsel to evaluate proposals and other alternatives and will provide advice and make recommendations to the Company's Board of Directors regarding any potential transactions;
- The Board of Directors adopted an advance notice policy regarding the nomination of directors (the "Advance Notice Policy") effective October 8, 2014. The purpose of the Advance Notice Policy is to provide shareholders, directors and management of the Company with direction on the procedure for shareholder nomination of directors. The Advance Notice Policy is the framework by which the Company seeks to fix a deadline by which registered or beneficial holders of common shares of the Company must submit director nominations to the Company prior to any annual or special meeting of shareholders and sets forth the information that a shareholder must include in the notice to the Company for the notice to be in proper written form. No person will be eligible for election as a director of the Company unless nominated in accordance with the provisions of the Advance Notice Policy;
- Waste mining was a priority during Q3 2014 in order to properly develop the Piaba pit with enough width and operating room to expose sufficient tonnes of ore for Q4 2014 and enable the mine to build an ore stockpile of sufficient capacity for the 2015 rain season. This resulted in a ratio of waste to ore of 7.0 for Q3 2014. The Company plans to decrease the ratio of waste to ore during Q4 2014;
- The Company recognized an impairment charge of approximately $102.0 million related to the Aurizona Gold mine. The estimated net realizable value of the Aurizona Gold mine is based on the current and expected gold price over the foreseeable future and its estimated recoverable amount based on the latest operating parameters and assumptions, including an estimate of capital costs required to construct a hard rock processing circuit; and
- Peter Mah resigned from the positions of Executive Vice-President and Chief Operation Officer ("COO") of Luna Gold and the Company engaged JDS Energy and Mining Inc. ("JDS") to provide operational and technical support to address mining and processing deficiencies at the Aurizona Mine. JDS is a contract mining services firm providing engineering, construction, procurement and management solutions internationally.

OVERVIEW

Luna Gold Corp. (the "Company") is a publicly listed company on both the TSX in Canada and the LMA in Peru, trading under the symbol "LGC," and traded on the OTCQX in the United States under the symbol "LGCUF". The Company is in the business of operating, exploring, acquiring and developing gold properties. The Company currently has one producing gold mine, brownfields exploration projects and greenfield exploration projects located in northeast Brazil.

The Company's main focus is the Aurizona gold mining operation ("Aurizona") located in the state of Maranhão, northeast Brazil. Aurizona consists of an open pit mine and gold processing plant. Aurizona includes the Piaba, Boa Esperança, Ferradura and Conceição gold deposits and several near-mine gold exploration targets. The land position

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Q3 2014 MD&A (table amounts expressed in millions of US Dollars, except per share amounts and where otherwise noted) www.lunagold.com

covers approximately 15,500 hectares and consists of a mining license and three gold exploration licenses, one of which includes the Tatajuba gold resource.

The Luna Greenfields exploration property ("Luna Greenfields") is located next to Aurizona and consists of an extensive landholding of 24 exploration licenses in various stages of exploration totalling approximately 220,000 hectares. The project area encompasses over 100 artisanal gold workings.

OUTLOOK AND STRATEGY

Based on the nine months of 2014 gold production and average unit cash costs of production, the Company has revised its 2014 full year operating guidance as follows:

	2014 (new guidance)	2014 (previous guidance)
Gold production (oz) (2)	73,000 - 78,000	75,000 - 80,000
Cash cost of production (USD/oz)	$925 - $975	$825 - $900
All-in Sustaining Cost (USD/oz)	$1,050 - $1,150	$915 - $1,010

Three and nine month All-In Sustaining Costs ("AISC") were $1,118 per ounce and $1,069 per ounce, respectively. At current gold prices of $1,165 per ounce and the Sandstorm gold stream of $404 per ounce, the Company receives an average of $1,035 per ounce of gold sold. These current negative operating margins are not sustainable in the long-term.

Accordingly, the Company has undertaken a process to determine the optimum production profile for sustained long life production at the Aurizona mine and prioritize allocation of its limited capital in order to right-size production in the current gold price environment. Many operational challenges require significant human and capital resources over the next several years. Technical challenges to stabilize and improve mining operations also include challenges with respect to the additional crushing and grinding circuit that will be needed to process the harder primary ore body in the future, the sustaining capital requirements to replace the aging plant and mining equipment and the need to recruit and retain qualified operational management at the site. Existing permits and licenses for the Aurizona operation and Luna Greenfields will require additional expenditures for renewal or updating to revise existing scope restrictions and, a number of new permits and licenses will be required to expand operations, including the hard rock circuit expansion, waste dumps, drilling and mining. The existing road to the village of Aurizona may require relocation to allow access to the western portion of ore body in the future, which will also require permitting and community support. The mine licence application for the Tatajuba ore body was submitted in March 2012 and remains under review by the Brazilian Mining Department. The Company is currently progressing the Environmental Impact Assessment for Tatajuba and is targeting to receive the mine licence in the second half of 2015.

Given the current state of gold markets and capital markets, the availability of the necessary financing to address these challenges being limited and the constraints imposed by time requirements, these challenges require a revision in the Company's strategic plan. Accordingly, the Board has approved the following strategy to address operational challenges in an economically sound manner in light of current market conditions with the objective of preserving and maximizing shareholder value:

- All non-essential capital programs have been halted. This includes the tailings dam raise, completion of Work Packages 1 and 2 of the Phase 1 expansion and refurbishment of mining equipment;
- Mining activity will be reduced from February 2015 onwards (to be determined by intensity of seasonal rains) to avoid the high costs associated with operating in the wet season. An ore stockpile, stored ahead of the plant, will be processed during the wet season. The target range for the stockpile is 485,000 to 630,000 tonnes of saprolite and transitional ore grading 1.2 grams per tonne; and
- Reductions in mine site personnel will be implemented to align the workforce to activities at the mine.

To address operational mining deficiencies, the Company engaged a mine management contractor from Canada and temporarily increased its contractor mine fleet. Improvements to pit access, main haulage and dump platforms increased productivity in all areas of the operation. Waste mining was a priority during the third quarter of 2014 in order to properly develop the Piaba pit with enough width and operating room to expose sufficient tonnes of ore for Q4 2014 and enable the mine to build an ore stockpile of sufficient capacity for the 2015 rain season. During the

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month of October, approximately 2.1 million tonnes of material was mined, of which 430,000 tonnes was ore, from the Piaba pit and 6,400 ounces of gold produced. The gold production target above is based on a mine plan designed to feed the existing plant with saprolite ore blend.

The mine management contractor has also been engaged to assist the Company's team to implement a water management program for the 2015 wet season. This water management program should be completed by the end of 2014.

The Company commenced its brownfield exploration program to expand resources and reserves, specifically targeting new saprolite mineralization and to improve its understanding of high grade mineralization controls and to sterilize footprints for future plant expansion, tailings and waste storage areas. To date, 6,930 metres in 76 holes have been drilled. The Company expects to spend $1.2 million in exploration in the fourth quarter of 2014.

Work on the Aurizona Phase II Expansion Prefeasibility Study ("PFSII") and the Aurizona NI 43-101 Resource and Reserve update ("Resource and Reserve Update") is continuing. The PFSII study will identify the Company's options to address the additional crushing and grinding circuit that will be needed to process the harder primary ore body in the future. The Resource and Reserve Update will utilize a lower gold price and incorporate improved geological modelling and information which are likely to result in changes to the previous Aurizona NI 43-101 Resource and Reserve estimates. Although additional work is required to finalize and publish the updated resource and reserves estimates, the improved modelling and lower gold price assumptions will result in a decrease to the Company's mineral resource and reserve estimates. The Company is working towards publishing its up-dated resource and reserve statement prior to April 30, 2015.

The Company and Sandstorm are in continuing consultations related to the potential modification of the Aurizona gold stream. The focus of the discussions is to explore opportunities that will increase long term value for both Sandstorm and the Company's shareholders in light of the challenging gold price environment. The goal is to improve the Company's access to capital, accelerate production and cash flow to both Sandstorm and the Company and advance the highly prospective brownfields and greenfields exploration targets. The Company is also in preliminary discussions with its corporate lenders Société Générale and Mizuho Corporate Bank.

During the quarter, the Company established a Special Committee comprised of independent members of the Company's Board of Directors with a mandate to explore all strategic alternatives, including the terms thereof, available to the Company to offer greater value to the Company's shareholders. The Special Committee will evaluate proposals and other alternatives and will provide advice and make recommendations to the Corporation's Board of Directors regarding any such potential transactions. Messrs. Wayne Kirk (Chairman), Steven Krause, Bill Lindqvist and Federico Schwalb have been appointed as members of the Special Committee.

There can be no assurance that this exploration process will result in any transaction. The Company does not currently intend to disclose further developments with respect to this process, unless and until its Board of Directors approves a specific transaction or otherwise concludes the review of strategic alternatives.

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AURIZONA GOLD MINE – MARANHAO STATE, BRAZIL

The Aurizona gold mine is wholly owned by the Company and is situated in the municipality of Godofredo Viana in Maranhão State, Brazil, near the coast of the Atlantic Ocean. Aurizona includes the Piaba, Boa Esperança, Ferradura and Conceição gold deposits, in addition to several near-mine gold exploration targets including Tatajuba. The area is covered by a mining licence and three exploration permits. The Boa Esperança, Ferradura and Conceição deposits are located within the mining permitted area, while the Tatajuba deposit is located in an exploration license that is in the application process to convert to a mine license.

Third Quarter and YTD Operating results

	Three months ended September 30				**Nine months ended September 30**			
(tabled monetary amounts are expressed in thousands of US dollars)	**2014**		2013		**2014**		2013	
Mined waste – tonnes	**3,498,544**		1,287,572		**5,467,097**		4,532,486	
Mined ore – tonnes	**500,081**		499,383		**1,193,375**		1,412,885	
Ratio of waste to ore	**7.0**		2.6		**4.6**		3.2	
Ore grade mined (g/t)	**1.38**		1.28		**1.48**		1.44	
Cost per tonne mined (USD)	**$ 3.09**		$ 2.49		**$ 3.78**		$ 2.38	
Processed ore – tonnes	**582,040**		540,194		**1,475,023**		1,371,676	
Average grade processed (g/t)	**1.30**		1.32		**1.29**		1.45	
Average recovery rate %	**88%**		90%		**88%**		91%	
Gold produced (ounces)	**20,188**		20,997		**53,864**		57,053	
Gold sales (ounces)	**17,535**		19,812		**54,419**		55,648	
Cash costs of production (1)	**USD per ounce**	**USD per tonne processed**	**USD per ounce**	**USD per tonne processed**	**USD per ounce**	**USD per tonne processed**	**USD per ounce**	**USD per tonne processed**
Mining	**$ 561**	**$ 21**	$ 233	$ 10	**$ 447**	**$ 17**	$ 229	$ 10
Processing	**364**	**11**	416	15	**400**	**14**	411	16
Administration	**89**	**3**	67	3	**90**	**3**	75	4
Refining and transport	**20**	**1**	22	1	**21**	**1**	26	1
Royalties	**7**	**1**	13	1	**11**	**-**	14	1
Total cash costs of production (1)	**$ 1,041**	**$ 37**	$ 751	$ 30	**$ 969**	**$ 35**	$ 755	$ 32
Sustaining capital	**55**		90		**56**		153	
Brownfield exploration	**22**		-		**44**		9	
All-in sustaining costs (1)	**$ 1,118**		$ 841		**$ 1,069**		$ 917	

Mining production

During the three and nine month periods ended September 30, 2014, total material mined (ore and waste) increased from the comparative periods of 2013 by 124% and 12%, respectively, primarily due to increased waste mining activities. The Company engaged a mine management contractor from Canada and temporarily increased its contractor mine fleet. Improvements to pit access, main haulage and dump platforms resulted in increases in operation efficiencies and productivity in all areas of the mine. Waste mining was a priority during Q3 2014 in order to properly develop the Piaba pit with enough width and operating room to expose sufficient tonnes of ore for Q4 2014 and enable the mine to build an ore stockpile of sufficient capacity for the 2015 rain season.

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For the nine month period ended September 30, 2014, increased operational mining efficiencies and waste mining in Q3 2014 were partially offset by above average rainfall during Q2 2014 and lower than planned equipment availability, due to delays in receiving equipment maintenance parts from suppliers. This resulted in significant downtime on some of the mine fleet and the mine operation in general during the rain season. In contrast, total material mined for the comparative nine month period in 2013 benefited from drought conditions experienced at the Aurizona mine, which allowed for an opportunity to increase mine production in dry conditions.

The average ore grade mined in the three month and nine month period ended September 30, 2014 was higher than the comparative period of 2013 due to better and deeper access to the main area of the Piaba pit.

After adjusting for foreign exchange, cost per tonne mined were approximately 24% and 71% higher for the three and nine month periods ended September 30, 2014, respectively, compared to the same periods of 2013. Q3 2014 costs included costs associated with dewatering the pit and building proper water management systems to improve pit access during rainy periods. In addition, mining costs for the three and nine month periods were higher due to repairs and rebuilds on the mine equipment as all the mine equipment had achieved their maximum usage hours and required rebuilds to maintain operations.

Mill processing

Gold production during the three and nine month periods ended September 30, 2014 was 4% and 6% lower than the comparable periods of 2013. The decrease was due to lower grade ore processed through the mill and lower recovery.

Ore throughput for the three month period ended September 30, 2014 was higher than the comparable periods of 2013 due to process plant maintenance improvements resulting in higher plant availability. Ore throughput for the nine month period ended September 30, 2014 was higher than the comparable period in 2013 as the drought conditions that positively impacted mine operations in Q1 2013 had the opposite impact on processing ore due to a lack of water available for ore processing. There were no water shortage issues in Q1 2014 resulting in the increase in process plant availability. In addition, the ore stockpile was drawn down and processed through the mill in 2014.

The average ore grade processed for the three and nine month periods ended September 30, 2014 was lower than the comparable periods in 2013 due to the blending and processing of the lower grade ore stockpile. Recoveries in the three and nine month periods ended September 30, 2014 were lower due to an increase in the processing of laterite and transitional ore blends, resulting in additional lime requirements in the production process. Ore throughput in the process plant was also intermittent due to a lack of steady feed from the mine and increases in waste being processed. A combination of these items resulted in a negative impact to recoveries.

Cash costs of production (1)

The Company's results are subject to seasonal variation, in particular the wet season in Northeastern Brazil. The wet season generally starts in January and continues through June, with the heaviest rainfall normally experienced in the months of March to May. As a result of the wet season, pit access and the ability to mine ore will be lower in this period than other periods of the year and the unit cost of production will also be higher. To address this issue, the Company mines ore and waste at higher elevations within the pit in the wet season and stockpiles ore in the dry season ahead of the wet season for processing.

The total cash cost of production was 38% and 28% higher for the three and nine month periods ended September 30, 2014 compared to the same periods in 2013. For the three month period ended September 30, 2013, foreign exchange movements between the US dollar and the Brazilian Real had a negative impact of approximately $6 per ounce compared to the 2013 period. For the nine month period ended September 30, 2014, the strengthening of the US dollar in relation to the Brazilian Real had a positive impact on the total cash costs for nine month period ended September 30, 2014 of approximately $78 per ounce compared to the 2013 period.

After adjusting for foreign exchange movements, the mining costs per ounce produced in the three and nine month periods ended September 30, 2014 were higher by approximately 139% and 111%, respectively compared to the same periods of 2013. Higher costs associated with increased waste mining activities, such as hauling and loading costs, stockpile and waste dump management costs, contractor mining costs, equipment rental and mobile maintenance costs and water management activities all led to the increase in costs. Waste mining was a priority during Q3 2014 in order to properly develop the Piaba pit with enough width and operating room to expose sufficient tonnes of ore for Q4 2014 and enable the mine to build an ore stockpile of sufficient capacity for the 2015 rain season.

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After adjusting for foreign exchange movements, processing costs per ounce produced in the three month period ended September 30, 2014, were approximately 13% lower than the comparative period of 2013. During Q3 2013, there was a one-time non-recurring consumable inventory write-off of approximately $0.8 million having an impact of approximately $38 per ounce as well as higher plant maintenance costs. After adjusting for foreign exchange movements, processing costs per ounce produced in the nine month period ended September 2014 were approximately 5% higher than the comparative period of 2013. The increase in the average process cost per ounce produced was due to the processing of the lower grade stockpile and lower recoveries due to higher leaching costs related to the increase in laterite and transitional ore processed as well intermittent ore throughput due to a lack of steady feed from the mine in Q2 2014.

The administration cost per ounce produced for the three and nine month periods ended September 30, 2014 was higher than the comparative periods of 2013 primarily due to lower gold production and inflation related salary increases.

Refining and transportation costs were lower due to a change in gold refineries in 2014.

Royalty costs for the three and nine month periods ended September 30, 2014 are lower compared to the same periods in 2013 as a result of a lower average realized gold price.

The total all-in sustaining cost of production was higher by 33% and 17% for the three and nine month periods ended September 30, 2014, as compared with the same periods of 2013. The higher AISC was the result of higher cash cost of production and higher brownfield exploration activities partially offset by deferring all non-essential sustaining capital projects to the future on an as-needed basis.

After adjusting for foreign exchange, total cost per tonne processed was 21% and 16% higher in the three and nine month periods ended September 30, 2014, respectively, compared to the same periods of 2013. This was generally due to the higher mining costs associated with higher waste mining activity which were partially offset by a higher volume of ore tonnes processed through the mill.

On a cost per tonne processed basis, the total cost per tonne processed was higher than the comparative periods in 2013 due to the increased waste stripping and the cost per tonne mined. However, processing costs were lower due to improvements in maintenance of the plant, increased plant availability and lower consumable prices and administration costs remained similar period on period.

Exploration

The Company commenced brownfields drilling activities for condemnation and new resource discovery programs. The objectives of this drilling program are to expand resources and reserves, specifically targeting new saprolite mineralization, to better understand high grade mineralization controls, and to sterilize footprints for future plant expansion, and for tailings and waste storage areas.

Condemnation drilling was completed on areas required for near term waste dump solutions with results confirming the areas were not mineralized and suitable for waste storage.

Resource discovery drilling commenced with 6,930 metres in 76 holes being drilled to date. Drill hole samples have been sent off site for assaying and results are expected in Q4. The Company expects to spend $1.2 million in exploration in the fourth quarter of 2014.

Permitting

The mine licence application for the Tatajuba claim was submitted in March 2012 and remains under review by the Brazilian Mining Department. The Company is currently progressing the Environmental Impact Assessment ("EIA-RIMA") and is targeting to receive the mine licence in the second half of 2015.

LUNA GREENFIELDS EXPLORATION DISTRICT – MARANHAO STATE, BRAZIL

The Luna greenfields exploration properties are located to the southwest and southeast of Aurizona and contain multiple shear zones and over 100 historic artisanal gold workings (garimpos). They consist of 24 exploration licenses, in various stages of exploration, totalling approximately 220,000 hectares, and are located within the São

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Luis Craton in the southeast part of the Guyana shield, which hosts several major gold deposits, including Rosebel and Las Cristinas.

During 2013, all greenfield exploration activities were placed on care and maintenance and the majority of the exploration team was released from the Company. The Company will maintain the licenses and progress any required filings through desk top studies in the near term. Future greenfield exploration activities will be periodically reviewed and any work programs will commence subject to cash availability for investment in the Luna Greenfields projects.

SUMMARY OF CONSOLIDATED FINANCIAL OPERATING RESULTS

	Three months ended September 30		Nine months ended September 30	
(tabled amounts are expressed in millions of US dollars, except per share amounts and ounces of gold))	**2014**	**2013**	**2014**	**2013**
Gold sales, including Sandstorm (ounces)	**17,535**	19,812	**54,419**	55,648
Revenue [3]	**$ 20.2**	$ 23.1	**$ 62.2**	$ 71.2
Production costs [3]	**(22.3)**	(14.8)	**(52.7)**	(42.1)
Depreciation and amortization	**(1.1)**	(1.2)	**(3.6)**	(5.6)
Gross profit	**(3.2)**	7.1	**5.9**	23.5
Impairment of property, plant and equipment	**(102.0)**	-	**(102.0)**	-
General & administration	**(2.4)**	(2.1)	**(7.0)**	(6.1)
Share-based compensation	**-**	(0.9)	**(0.3)**	(1.6)
Exploration expense	**(0.5)**	(0.7)	**(1.2)**	(3.7)
Financing cost, net	**(0.4)**	(0.1)	**(0.8)**	(0.5)
Financial instruments (loss) gain	**(0.3)**	(1.8)	**3.5**	1.8
Foreign exchange (loss) gain	**(0.9)**	(0.2)	**0.8**	(0.2)
Other expenses	**-**	-	**-**	(0.8)
Income tax expense	**(0.7)**	(1.1)	**(1.7)**	(4.0)
Net income (loss)	**$ (110.4)**	$ 0.2	**$ (102.8)**	$ 8.4
Basic/diluted income (loss) per share	**$ (0.83)**	$ 0.00	**$ (0.84)**	$ 0.08
Total assets	**$ 146.5**	$ 211.1	**$ 146.5**	$ 211.1
Total non-current liabilities	**$ 35.0**	$ 57.2	**$ 35.0**	$ 57.2

(3) Effective January 1, 2014, the Company classifies gold sales 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. All prior year comparatives have been recast to conform to the current year presentation.

Revenue in the three and nine month periods ended September 30, 2014 decreased by approximately 12% and 13%, respectively, compared to the same periods in 2013 due to lower production and a lower average realized gold price. The Company's average realized price of gold received on sales (including amounts delivered to Sandstorm) for the three and nine months ended September 30, 2014 was $1,148 per ounce and $1,140 per ounce compared with $1,160 per ounce and $1,273 per ounce for the comparative periods in 2013, respectively.

Production costs for the three months and nine month periods ended September 30, 2014 increased compared to the same period of 2013 primarily due to higher mining costs associated with repairs to the mine fleet, increases in waste stripping activities and water management programs.

Depreciation and amortization were lower for the three and nine month period ended September 30, 2014 compared to the 2013 period due to lower sales volumes. In addition, for the nine month period ended September 30, 2014,

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depreciation and amortization were lower compared to the 2013 period due to a change in accounting estimate resulting from the updated mineral reserve estimate commencing in Q2 2013, which decreased depreciation and amortization on a per ounce basis.

General and administrative expenses were higher for the three and nine month periods ended September 30, 2014 compared to the 2013 periods due to an increase in corporate technical employees who have targeted operational and project improvements in 2014, inflationary salary increases, as well as corporate severance costs. This was partially offset by lower information technology and investor relations costs, as the Company focused on improving cost efficiencies.

Non-cash share-based compensation relates to costs associated with the Company's stock option grants and restricted share units, and changes in the Company's share price impact the fair value of these instruments. Share-based compensation was lower for the three and nine month period ended September 30, 2014 compared to the 2013 period primarily as a result of increased forfeitures and a lower expense associated with the fair value of the Company's stock option grants in 2014 as a result of a lower share price.

Exploration expense is lower for the three nine month period ended September 30, 2014 compared to the comparative period of 2013 due to the Company's decision to reduce exploration funding and place Luna Greenfields projects on care and maintenance while prioritizing the Phase I Expansion.

Net financing costs for the three and nine month periods ended September 30, 2014 were higher as a result of a higher debt balance at a higher interest rate compared to the same periods in 2013.

Financial instruments loss/gain primarily relate to changes in fair value of marketable securities, forward foreign exchange contracts, as well as gold forward and collar contracts. For the three month period ended September 30, 2014, an unrealized loss on the forward foreign exchange contracts and marketable securities was offset by unrealized gains on the gold forward and collar contracts. For the nine month period ended September 30, 2014, gains on the forward foreign exchange contracts and marketable securities were partially offset by losses on the gold forward contracts.

Foreign exchange variations are related to the variances in foreign exchange rates between the Canadian Dollar, US Dollar and the Brazilian Real.

In the first quarter of 2013, the Company completed a new $30.0 million corporate secured credit facility with Société Générale and Mizuho Corporate Bank and settled the senior secured credit facility with WestLB. As a result of repaying the WestLB facility in full, a loss on the settlement of debt was recognized in Q1 2013 in the amount of $0.8 million, included in other expenses, representing the write-off of previously deferred financing fees and the settlement of the floating to fixed interest rate swap contracts.

During the quarter, the Company recognized an impairment charge of approximately $102.0 million related to the Aurizona Gold mine. The estimated net realizable value of the Aurizona Gold mine is based on the current and expected gold price over the foreseeable future and its estimated recoverable amount based on the latest operating parameters and assumptions, including an estimate of capital costs required to construct a hard rock processing circuit.

An income tax expense was recognized for the three and nine month periods ending September 30, 2014 to write-off the deferred income asset tax balance, as it is not probable that the Company may realize these tax assets.

(1) Refer to "Non-IFRS Financial Measures" on Page 15.
(2) The gold production target ranges are estimates of the Company based on current operating plans. There is no assurance these targets will be realized.

Quarterly Financial Data – 2 year historic trend

(tabled amounts are expressed in millions of US dollars, except per share data and ounces of gold)	**Q3 14**	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12
Total gold sales, including Sandstorm sales (ounces)	**17,535**	13,882	23,002	16,755	19,812	22,820	13,017	25,209
Average realized gold price, including Sandstorm sales (per ounce)	**$ 1,148**	$ 1,158	$ 1,123	$ 1,157	$ 1,160	$ 1,298	$ 1,401	$ 1,483
Total cash cost of production [1] (per ounce)	**$ 1,041**	$ 1,140	$ 705	$ 652	$ 751	$ 694	$ 774	$ 668
All-in sustaining cost of production [1] (per ounce)	**$ 1,118**	$ 1,297	$ 787	$ 832	$ 841	$ 864	$ 1,015	$ 849
Revenue [3]	**$ 20.2**	$ 16.1	$ 25.9	$ 19.5	$ 23.1	$ 29.7	$ 18.4	$ 37.7
Production costs [3]	**(22.3)**	(14.8)	(15.6)	(12.4)	(14.8)	(16.8)	(10.4)	(17.3)
Depreciation and amortization	**(1.1)**	(1.2)	(1.3)	(1.5)	(1.2)	(2.1)	(2.4)	(3.6)
Gross profit	**$ (3.2)**	$ 0.1	$ 9.0	$ 5.6	$ 7.1	$ 10.8	$ 5.6	$ 16.8
Impairment of property, plant and equipment	**$ (102.0)**	-	-	-	-	-	-	-
Net (loss) income	**$ (110.4)**	$ 0.1	$ 7.5	$ (0.5)	$ 0.2	$ 8.7	$ (0.6)	$ 8.3
Basic/diluted income (loss) per share	**$ (0.83)**	$ 0.00	$ 0.07	$ 0.00	$ 0.00	$ 0.08	$ (0.01)	$ 0.08

(3) Effective January 1, 2014, the Company classifies gold sales 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. All prior year comparatives have been recast to conform to the current year presentation.

Variances in revenue between each quarter were the result of the timing of gold delivered for sale, sales volume and the average realized gold price during that respective quarter. Generally, it takes approximately 10 days to deliver gold available for sale from the date of final production due to Brazilian export regulations and processes. Therefore, large quarterly revenue variances may result due to the timing of the shipments.

Production costs are driven by the average unit cash cost of production each quarter and the timing of gold sales. Cash cost of production was negatively impacted during Q3 2014 as a result of costs associated with higher waste mining activities and higher in Q2 2014 as a result of higher than average rainfall, resulting in a challenging operating environment, lower equipment productivity and the processing of lower grade ore stockpile. Variances in the total production costs between each quarter are the direct result of the timing of gold sales.

Depreciation expense is primarily based on units of production. Variances in depreciation expense are a result of the timing of gold sales. In addition, depreciation expense generally decreased commencing in Q2 2013 compared with the prior quarters as a result of the updated mineral reserve base, resulting in a lower depreciation cost per ounce of gold sold.

Variations in gross profit between each of the quarters are a direct result of the variations in revenue, production costs, and depreciation expense discussed above.

Variations in net income (loss) and basic/diluted income (loss) per share are a direct result of the variations in gross profit, exploration expenditures, administrative expenditures, fluctuations in non-cash financial instruments and share-based compensation, foreign exchange gains (losses), net financing costs, other expenses, and taxation. The Q3 2014 results include an impairment charge of approximately $102.0 million recorded to write-down the Aurizona Gold mine to its estimated recoverable amount.

(1) Refer to "Non-IFRS Financial Measures" on Page 15.
(2) The gold production target ranges are estimates of the Company based on current operating plans. There is no assurance these targets will be realized.

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended September 30		Nine months ended September 30	
(tabled amounts, except per share data, are expressed in millions of US dollars)	**2014**	**2013**	**2014**	**2013**
Cash flows from operating activities				
- Before changes in non-cash working capital items (1)	**$ (2.3)**	$ 5.1	**$ 4.3**	$ 19.6
- After changes in non-cash working capital items (1)	**(6.8)**	12.3	**(4.5)**	15.8
Cash flows from investing activities	**(8.2)**	(7.7)	**(19.2)**	(33.4)
Cash flows from financing activities	**14.3**	9.3	**39.9**	16.6
Net cash flows	**(0.7)**	13.9	**16.2**	(1.0)
Effect of exchange rate changes on cash	**(0.3)**	0.3	**-**	(0.2)
Cash balance	**$ 22.2**	$ 18.1	**$ 22.2**	$ 18.1
Cash flows from operating activities per share (1)				
- Before changes in non-cash working capital items	**$ (0.02)**	$ 0.05	**$ 0.04**	$ 0.19
- After changes in non-cash working capital items	**$ (0.05)**	$ 0.12	**$ (0.04)**	$ 0.15

For the three months ended September 30, 2014, the Company generated lower operating cash flows before and after working capital movements compared to the 2013 periods due to negative operating results, primarily as a result of higher waste mining activities. The timing of gold shipments in Q1 2014, compared with the same period in 2013 offset negative operating results for Q2 and Q3 2014, resulting in cash inflow from operations before working capital for the nine month period ended September 30, 2014.

At September 30, 2014, the Company had cash and cash equivalents of $22.2 million and finished gold bullion inventory of approximately 8,437 ounces.

Cash outflow from investing activities for the three and nine month periods ended September 30, 2014 primarily consisted of $7.3 million and $17.1 million of payments for property plant and equipment, payments for mineral properties of $0.5 million and $2.4 million and recoverable investment tax payments of $0.6 million and $2.4 million, respectively, which were partially offset by cash receipts from Sandstorm of $1.3 million on a year to date basis in relation to their 17% contribution to the Aurizona Phase I expansion costs and proceeds from notes receivable and marketable securities of $0.2 million and $1.4 million, respectively. The expenditures on property plant and equipment consisted of $3.6 million and $9.6 million on the Phase I Expansion project, $1.1 million and $3.0 million on sustaining capital, and $2.6 million and $4.5 million on other capital projects, for the three and nine months ended September 30, 2014, respectively. Payments for mineral properties related primarily to clearing and preparation of a new mining area on the west side of the Piaba pit. Cash outflows in the comparative periods of 2013 were primarily related to net payments for the Phase I Expansion project and recoverable investment tax payments.

Cash inflows from financing activities in Q3 2014 primarily consisted of proceeds from issuance of common shares, partially offset by debt principal and interest payments. In August 2014, the Company entered into a strategic agreement with Sandstorm and completed a non-brokered private placement of 19,500,000 common shares priced at CAD $1.02 per share, for net proceeds of CAD $19.9 million. Cash inflows from financing activities for the nine month period ended September 30, 2014 primarily consisted of proceeds from issuance of common shares and debt, partially offset by debt principal and interest payments. For the comparative nine month period of 2013, cash inflows from financing activities consisted of net proceeds from debt. In Q1 2013, the Company entered into a $30.0 million corporate secured revolving facility (the "Corporate Facility") with Société Générale (Canada Branch) and Mizuho

(1) Refer to "Non-IFRS Financial Measures" on Page 15.
(2) The gold production target ranges are estimates of the Company based on current operating plans. There is no assurance these targets will be realized.

Corporate Bank Ltd., which was fully drawn and used to repay the WestLB debt facilities, provide funding for the Phase I expansion project, as well as to provide funding for general corporate purposes.

As at September 30, 2014, the Company had the following contractual obligations outstanding:

(tabled amounts are expressed in millions of US dollars)	**Total**	**Less than 1 year**	**1 – 2 years**	**2 – 3 years**	**3 – 4 years**	**4 – 5 years**	**Thereafter**
Long-term debt	47.7	27.5	0.2	-	20.0	-	-
Interest on long-term debt	1.9	0.1	-	-	1.8	-	-
Accounts payable and accrued liabilities	13.9	13.9	-	-	-	-	-
Restoration provision	2.8	-	-	-	-	-	2.8

Corporate Secured Revolving Facility with Société Générale and Mizuho Corporate Bank Ltd. ("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.

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 which commenced 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. The Company made its first $3.0 million payment on September 30, 2014.

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

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.

In April 2014, the Company drew down the final $10.0 million of the secured debt facility with Sandstorm to fund a brownfield exploration program at Aurizona. The objective of this 3 to 5 year exploration program is to expand resources and reserves, specifically targeting new saprolite mineralization, and to sterilize future footprints for plant expansion, tailings and waste storage areas.

The Sandstorm Debt Facility carries an interest rate of 12% per annum, is guaranteed by the Company and its subsidiary 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.

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.

(1) Refer to "Non-IFRS Financial Measures" on Page 15.
(2) The gold production target ranges are estimates of the Company based on current operating plans. There is no assurance these targets will be realized.

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 of MASA.

FINAME Equipment Purchase Financing ("FINAME")

In February 2011, the Company entered into a 4.0 million Brazil Reals ("BRL") debt financing to fund equipment purchases. Interest on the facility is calculated at 5.5% per annum. Principal and interest is repayable in equal monthly instalments of 74,000 BRL beginning in September 2011 and ending February 2016. The equipment purchased is pledged as security for this facility.

Derivative Contracts

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 six month period from July 2014 to December 2014, with a maximum price of $1,340 per ounce and the floor price of $1,250 per ounce.

SHAREHOLDERS' EQUITY

Shareholders' equity decreased from December 31, 2013 primarily due to the Company's recognition of an impairment in asset value during the nine months ended September 30, 2014 partially offset by share issuances discussed below.

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.

The Company completed a non-brokered private placement of 19,500,000 common shares priced at CAD $1.02 per share, for gross proceeds of CAD $19.9 million as part of a strategic investment agreement with Sandstorm Gold Ltd. ("Sandstorm") which resulted in Sandstorm becoming the Company's largest shareholder.

As at the date of this report the Company had outstanding 141,478,566 common shares and options to purchase 7,704,800 common shares.

The following is a summary of stock options outstanding as at the date of this report:

Number of shares ('000s)	Vested ('000s)	Price per share C$	Expiry Date
1	1	3.01	Dec 2014
1,929	1,829	1.55 – 3.15	Jul – Sep 2015
1,220	1,220	2.30 – 3.25	Apr – Oct 2016
1,741	1,563	2.10 – 3.55	Mar – Nov 2017
999	560	1.55 – 3.01	Apr – Aug 2018
1,815	-	1.08 – 1.16	Mar – Jun 2019
7,705	5,173		

(1) Refer to "Non-IFRS Financial Measures" on Page 15.
(2) The gold production target ranges are estimates of the Company based on current operating plans. There is no assurance these targets will be realized.

SUDENE TAX INCENTIVE

The Company is subject to corporate income tax in Brazil at a rate of 25% and to social contribution tax at a rate of 9%.

The Company is entitled to a special Brazilian tax incentive granted by the Superintendence for the Development of the Northeast ("SUDENE") that provides a 75% reduction to the corporate income taxes payable on eligible profits earned for the year in relation to the Aurizona operations. The Company is entitled to the SUDENE tax incentive for a 10 year period commencing in the year of receipt of the Appraisal Certificate from SUDENE, which was received in October 2011. The Company is required to make an additional application to extend the SUDENE tax incentive to production in excess of the amounts specified in the Appraisal Certificate and for future mine expansions or the implementation of new mining operations. Such applications are subject to approval by SUDENE. The Company is currently in the process of filing an application for extension related to the Phase I Expansion.

SANDSTORM DEFINITIVE AGREEMENT AND AMENDMENT AGREEMENT

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 was amortized on a unit of sales basis as a credit to production costs. Effective January 1, 2014, amortization of other liabilities is classified as revenue rather than a credit to production costs on the consolidated statement of comprehensive income, with all comparative periods recast to conform to the current year presentation.

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 per ounce amount of $400 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.

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.

The Company provided a completion guarantee on the Amendment Agreement whereby the Company must produce in excess of 57,500 ounces of gold over any consecutive six month (as elected by the Company) period by December 15, 2016. This completion guarantee was originally agreed to be completed by December 31, 2015, however, Sandstorm has granted an extension. If the Company fails to achieve this, then the Company shall pay Sandstorm an amount equal to the following:

> (62,500 ounces of gold less the amount of ounces of gold produced over the elected six months) divided by 32,500, multiplied by $10.0 million with interest thereon at Prime plus 2% per annum.

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.

(1) Refer to "Non-IFRS Financial Measures" on Page 15.
(2) The gold production target ranges are estimates of the Company based on current operating plans. There is no assurance these targets will be realized.

SANDSTORM STRATEGIC AGREEMENT

The Company entered into a strategic agreement with Sandstorm, whereby Sandstorm purchased 19,500,000 common shares of the Company for gross proceeds of CAD $19.9 million, that, when combined with the 8.5 million shares of the Company already owned by Sandstorm, resulted in Sandstorm owning approximately 19.8% of the issued shares of the Company. Sandstorm also will have the right (so long as Sandstorm owns greater than 15% of the Company) to maintain its ownership percentage through future private placements or public offerings and to appoint one member to the Company's Board of Directors.

In connection with the transaction, David Awram, Senior Executive Vice President of Sandstorm, was appointed to the Company's Board of Directors. Mr. Luis ("Lucho") Baertl stepped down as Chairman of the Company's Board and was succeeded as Chairman by the Company's former Lead Independent Director, Mr. Steven Krause. Mr. Baertl remains a Director of the Company.

NON IFRS FINANCIAL MEASURES

This MD&A refers to total cash cost per ounce of gold produced, all-in sustaining cash cost per ounce of gold produced, all-in costs per ounce, cash flow per share, and cash flow from operating activities before and after changes in non-cash working capital because certain investors use this information to assess the Company's performance and also determine the Company's ability to generate cash flow for investing activities. The Company has conformed its total cash cost, all-in sustaining cash costs, and all-in costs of production definition to the measure as set out in the guidance note released by the World Gold Council. All-in sustaining cash costs include total production cash costs incurred at the Company's mining operations, sustaining capital expenditures and brownfield exploration expenditures. All-in costs include total all-in sustaining cash costs, corporate expenditures, and Greenfield exploration activities. These measurements capture all of the important components of the Company's production and related costs. In addition, management utilizes these metrics as an important management tool to monitor cost performance of the Company's operations. These measurements have no standardized meaning under IFRS and may not be comparable to similar measures presented by other companies. These measurements are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.

(1) Refer to "Non-IFRS Financial Measures" on Page 15.
(2) The gold production target ranges are estimates of the Company based on current operating plans. There is no assurance these targets will be realized.

Total Cash Cost, All-in Sustaining Costs, and All-in Costs:

The following table provides reconciliation between non IFRS cash costs to production costs included in cost of sales as disclosed in the consolidated statement of comprehensive income (IFRS):

	Three months ended September 30		Nine months ended September 30	
(tabled amounts are expressed in millions of US dollars, except gold ounces and per ounce amounts)	**2014**	**2013**	**2014**	**2013**
Total production costs	**$ 22.3**	$ 14.8	**$ 52.7**	$ 42.1
Add (subtract):				
Finished goods and WIP inventory stock adjustment and other	**(1.3)**	1.0	**(0.5)**	1.0
Total cash cost of production	**$ 21.0**	$ 15.8	**$ 52.2**	$ 43.1
Gold ounces produced	**20,188**	20,997	**53,864**	57,053
Total cash cost of production (per ounce)	**$ 1,041**	$ 751	**$ 969**	$ 755
Add:				
Sustaining Capital	**$ 1.1**	$ 1.9	**$ 3.0**	$ 8.7
Brownfield Exploration	**0.5**	-	**2.4**	0.5
Total other operating cash cost of production	**$ 1.6**	$ 1.9	**$ 5.4**	$ 9.2
Gold ounces produced	**20,188**	20,997	**53,864**	57,053
Total other operating cash cost of production per ounce	**$ 77**	$ 90	**$ 100**	$ 162
All-in sustaining cost of production (per ounce)	**$ 1,118**	$ 841	**$ 1,069**	$ 917
Add:				
Greenfield Exploration	**$ 0.5**	$ 0.7	**$ 1.2**	$ 3.7
Corporate Expenditures	**2.5**	2.1	**7.0**	6.0
Total Greenfield and Corporate Expenditures	**$ 3.0**	$ 2.8	**$ 8.2**	$ 9.7
Gold ounces produced	**20,188**	20,997	**53,864**	57,053
Total Greenfield Exploration and Corporate Expenditures (per ounce)	**$ 147**	$ 133	**$ 153**	$ 171
All-in cost (per ounce)	**$ 1,265**	$ 974	**$ 1,222**	$ 1,088

Cash flow per share

In calculating the cash flow per share from operating activities, before and after working changes in non-cash working capital, the operating cash flow calculated for IFRS purposes is divided by the basic weighted average common shares outstanding for the respective periods.

Cash flow from operating activities before and after changes in non-cash working capital

Cash flow from operating activities before and after changes in non-cash working capital is reconciled to IFRS measures in the Company’s Consolidated Statements of Cash Flows.

(1) Refer to “Non-IFRS Financial Measures” on Page 15.
(2) The gold production target ranges are estimates of the Company based on current operating plans. There is no assurance these targets will be realized.

OTHER DISCLOSURES

Seasonality

The Company's results are subject to seasonal variation, in particular the wet season in Northeastern Brazil. The wet season generally starts in January and continues through June, with the heaviest rainfall normally experienced in the months of March to May. As a result of the wet season, pit access and the ability to mine ore will be lower in this period than other periods of the year and the unit cost of production will also be higher. To address this issue, the Company mines ore and waste at higher elevations within the pit in the wet season and stockpiles ore in the dry season ahead of the wet season for processing.

Off-Balance Sheet Arrangements

As at September 30, 2014, in conjunction with the Aurizona Phase I Expansion project, the Company has committed to approximately $1.3 million in capital expenditures. The Company has entered into operating office leases for approximately $0.9 million.

Financial Instruments

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

(tabled amounts, are expressed in millions of US dollars)	**September 30, 2014**	**December 31, 2013**
Financial assets:		
Loans and receivables:		
Cash and cash equivalents	**$ 22.2**	$ 6.0
Trade receivables	**1.1**	-
Sandstorm Phase 1 expansion receivables	**1.0**	0.9
Notes receivable	**3.8**	3.7
Held for trading:		
Marketable securities and share consideration	**1.7**	1.7
Derivative asset	**5.0**	6.6
Total financial assets	**$ 34.8**	$ 18.9
Financial liabilities:		
Held for trading:		
Derivative liabilities	**$ 6.9**	$ 10.4
Other:		
Accounts payable and accrued liabilities	**13.9**	15.4
Long-term debt, including current portion	**48.8**	40.4
RSU liability (in other provisions)	**-**	0.8
Total financial liabilities	**$ 69.6**	$ 67.0

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 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).

(1) Refer to "Non-IFRS Financial Measures" on Page 15.
(2) The gold production target ranges are estimates of the Company based on current operating plans. There is no assurance these targets will be realized.

Marketable securities and share consideration are valued using level 1 inputs and derivatives are valued using level 2 inputs.

NATURE OF OPERATIONS AND GOING CONCERN

The interim Consolidated Financial Statements and Management Discussion and Analysis 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.

The interim Consolidated Financial Statements and Management Discussion and Analysis 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 the 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.

ESTIMATES, RISKS AND UNCERTAINTIES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ materially from those estimates.

The significant judgements that management has made in the process of applying the Company's accounting policies include the accounting for the Sandstorm agreement.

Measurement of the Company's assets and liabilities is subject to risks and uncertainties, including those related to reserve and resource estimates; title to mineral properties; future gold prices; costs of future production; future costs of restoration provisions; changes in government legislation and regulations; future income tax amounts; the availability of financing; and various operational factors. Significant estimates that have the most significant effect on the amounts recognized in the Company`s consolidated financial statements are as follows:

Impairment of property, plant and equipment

The Company evaluates each asset or cash generating unit 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.

When required, the determination of fair value and 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

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be further impaired or the impairment charge reduced with the impact recorded in the statement of comprehensive income.

Mineral reserve and mineral resource estimates

The Company estimates its mineral reserves and mineral resources based on information compiled by qualified persons as defined by National Instrument ("NI") 43-101. Mineral reserves determined in this way are used in the calculation of depreciation, amortization and impairment charges, and for forecasting the timing of the payment of closure and restoration costs. In assessing the life of a mine for accounting purposes, mineral resources are only taken into account where there is a high degree of confidence of economic extraction. There are numerous uncertainties inherent in estimating mineral reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of mineral reserves and may, ultimately, result in mineral reserve estimates being revised. Such changes in mineral reserves could impact on depreciation and amortization rates, asset carrying values and the provision for closure and restoration costs.

The Company's Resource and Reserve update targeted for completion prior to April 30, 2015, will utilize a lower gold price and incorporate improved geological modelling and information. Although additional work is required to finalize and publish the updated resource and reserves estimates, the improved modelling and lower gold price assumptions will result in a decrease to the Company's mineral resource and reserve estimates.

Restoration Provision

Closure and restoration costs are a normal consequence of mining, and the majority of closure and restoration expenditures are incurred near the end of the life of the mine. The Company's accounting policy requires the recognition of such provisions when the obligation occurs. The initial provisions are periodically reviewed during the life of the operation and updated to reflect new developments or changes in estimates and forecasts. Although the ultimate cost to be incurred is uncertain, the Company estimates its costs based on studies using current restoration standards and techniques. The initial closure provisions together with changes, other than those arising from the unwinding of the discount applied in establishing the net present value of the provision, are capitalized within property, plant and equipment and depreciated over the lives of the assets to which they relate.

The ultimate magnitude of these costs is uncertain, and cost estimates can vary in response to many factors, including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites, local inflation rates and exchange rates. The expected timing of expenditure can also change, for example, in response to changes in mineral reserves or production rates or economic conditions. As a result, there could be significant adjustments to the provision for closure and restoration, which would affect future financial results.

Financial instruments risk exposure

Valuation of derivative financial instruments

The valuation of the Company's derivative financial instruments involves estimation and judgement by management. In determining these amounts, the Company uses option pricing models or other valuation techniques. For the Company's foreign exchange forward contracts and gold hedge contracts, estimates and assumptions are required in relation to items such as forward foreign exchange and forward gold prices as well as the Company's or its counterparty credit risk. Changes in these assumptions and estimates can have an impact to the relevant charge to the statement of income.

Credit risk

The Company's credit risk is primarily attributable to cash and bank balances, short-term deposits, trade receivables and notes receivable.

The Company limits its credit exposure on cash and short-term deposits held in bank accounts by holding its key transactional bank accounts with large, highly rated financial institutions.

The Company limits its credit exposure on trade receivables by establishing long-term relationships with well-established companies. The Company makes 100% of its gold sales to one company. The Company is also exposed to credit risk as it delivers gold to Sandstorm.

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Liquidity risk

The Company manages liquidity risk by maintaining cash and cash equivalent balances and available credit facilities to ensure that it is able to meet its short-term and long-term obligations as and when they fall due. Company-wide cash projections are managed centrally and regularly updated to reflect the dynamic nature of the business and fluctuations caused by commodity price and exchange rate movements.

In addition, the Company is obligated under its Corporate Facility to maintain liquidity and satisfy various ratio tests on an historical and prospective cash flow basis.

Market risks

a) Commodity price risk

The Company is subject to future revenue price risk from fluctuations in the market prices of gold. The Company's risk management policy allows for the management of these exposures through the use of derivative financial instruments. The use of commodity derivatives is based on practices and parameters set by the Company's Board of Directors.

To manage commodity price risk, the Company has entered into gold forward contracts up to 2016.

b) Interest rate risk

The Company's interest rate risk arises primarily from the interest received on cash and short-term deposits and interest paid on floating rate borrowings. The floating rate deposits and borrowings expose the Company to cash flow interest rate risk.

Deposits are invested on a short-term basis to ensure adequate liquidity for payment of operational and capital expenditures.

c) *Foreign exchange risk*

The Company's functional currency and reporting currency is USD. Commodity sales are denominated in USD and the majority of borrowings are denominated in USD. A significant portion of the Company's operating expenses are denominated in other currencies, primarily the Brazilian Real and Canadian Dollar, which is the Company's primary foreign exchange exposure.

To manage foreign exchange risk, the Company has entered into foreign exchange forward contracts up to 2016.

Income taxes

The determination of the Company's tax expense for the period and deferred tax assets and liabilities involves significant estimation and judgement by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Management also makes estimates of future earnings which affect the extent to which potential future tax benefits may be used. The Company is subject to assessments by various taxation authorities, which may interpret legislation differently. These differences may affect the final amount or the timing of the payment of taxes. The Company provides for such differences where known based on management's best estimate of the probable outcome of these matters.

International Interests

The operations of Aurizona are conducted in northeast Brazil and the operations are exposed to various levels of political, economic and other risks and uncertainties. These risks and uncertainties include, but are not limited to, terrorism, hostage taking, military repression, crime, political instability, currency controls, extreme fluctuations in currency exchange rates, high rates of inflation, uncertainty of the rule of law and legal system, misuse of legal system, corruption of public officials and/or courts of law, labour unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licenses, permits, approvals and contracts, illegal mining, changes in taxation policies, restrictions on foreign exchange and repatriation, and changing political conditions and governmental regulations relating to foreign investment and the mining business.

Changes, if any, in mining or investment policies or shifts in political attitude in Brazil may adversely affect the Company's business, results of operations and financial conditions. Operations may be affected in varying degrees by government regulations with respect to, but not limited to, restrictions on production, price controls, export controls, currency remittance, income taxes, expropriation of property, foreign investment, maintenance of claims,

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environmental legislation, land use, land claims of local people, water use, mine safety and the rewarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction. Failure to comply strictly with applicable laws, regulations and local practices relating to mineral right applications and tenure, or any other events outside the Company's control, could result in loss, reduction or expropriation of entitlements, or the imposition of additional local or foreign parties as joint venture partners with carried or other interests. In addition, Canada and other countries have adopted and enforce anti-bribery legislation that may result in severe penalties. Although the Company is implementing increasingly strict policies and practices to prevent breach of anti-bribery legislation by its representatives, compliance with such laws can be challenging and requires a significant amount of time and resources at the Company's operations.

The occurrence of these various factors and uncertainties cannot be accurately predicted and could have an adverse effect on the mining operations.

Other Risks Related to Recent Developments

In addition, the following specific risk factors should be considered: (i) it is expected that the resource and reserve update will result in a decrease from the current resource and reserve estimates disclosed by the Company, and therefore investors are accordingly cautioned in their review of such current estimates; (ii) there is no assurance that the new operational strategy and/or strategic review process will result in a successful outcome, including, without limitation, preserving the economic resources of the Company and/or a value enhancing transaction; (iii) there is no assurance that the Company will be successful in its efforts to retain the qualified technical management it needs in a cost and time efficient manner or at all to face operational challenges disclosed herein; (iii) certain of its permits are not sufficient for the scope of the Company's operations which may result in fines and other possible sanctions; (iv) there is no assurance the Company will be able to maintain, renew and obtain all required permits; (v) the Company may need to relocate part of the road to and part of the village of Aurizona to access part of the ore body, and there is no assurance the Company will be successful in the permitting and social community processes associated with the relocation; (vi) water management issues may not be successfully resolved which may result in preventing mine access and potentially pit wall failures; and (vii) potential transfer pricing issues related to the Sandstorm Agreement.

CHANGES TO ACCOUNTING POLICIES

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 classified 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. All prior year comparative amounts have been recast to conform to the current year presentation.

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.

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INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure controls and procedures. The Company's internal control over financial reporting and disclosure controls and procedures is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. There have been no changes in the Company's internal control over financial reporting or disclosure controls and procedures during the three months ended September 30, 2014 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting and disclosure controls and procedures.

FORWARD LOOKING STATEMENTS

This MD&A includes certain statements that constitute "forward-looking statements", and "forward-looking information" within the meaning of applicable securities laws (collectively referred to as "forward-looking statements", unless otherwise stated). These statements appear in a number of places in this MD&A and include statements regarding our intent, or the beliefs or current expectations of our officers and directors. Such forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this MD&A, words such as "believe", "anticipate", "estimate", "project", "intend", "expect", "may", "will", "plan", "should", "would", "contemplate", "possible", "attempts", "seeks", "goals", "targets" and similar expressions are intended to identify these forward-looking statements. Forward-looking statements include statements under "Outlook and Strategy," expected future production, cash costs, all-in sustaining costs, all-in costs, future costs and timing for the completion for the Phase I Expansion, the timing of the Phase II pre-feasibility study and the mineral reserve update, future processing rates, resource and reserve estimates, including the expected reduction thereto, and the Company's future financial position, business strategy (including its new operational strategy and strategic review process), budgets, litigation, projected costs, financial results, taxes, plans and objectives. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting the financial condition of our business. These forward-looking statements were derived utilizing numerous assumptions regarding expected growth, results of operations, performance and business prospects and opportunities, general business and economic conditions, interest rates, the supply and demand for, deliveries of, and the level and volatility of prices of gold and related products, the timing of the receipt of regulatory and governmental approvals of our projects and other operations, our costs of production and productivity levels, as well as those of our competitors, power prices, continuing availability of water and power resources for our operations, market competition, the accuracy of our resource and reserve estimates (including with respect to size, grade and recoverability) and the geological, operational and price assumptions on which these are based, conditions in financial markets, the future financial performance of the Company, our ability to attract and retain skilled staff, our ability to procure equipment and operating supplies, positive results from the studies on our projects, our gold inventories, our ability to secure adequate transportation for our products, our ability to obtain permits for our operations and expansions, and our ongoing relations with our employees and business partners that could cause our actual results to differ materially from those in the forward-looking statements. While the Company considers these assumptions to be reasonable, based on information currently available, they may prove to be incorrect. Accordingly, you are cautioned not to put undue reliance on these forward-looking statements. Forward-looking statements should not be read as a guarantee of future performance or results. To the extent any forward-looking statements constitute future-oriented financial information or financial outlooks, as those terms are defined under applicable Canadian securities laws, such statements are being provided to describe the current anticipated potential of the Company and readers are cautioned that these statements may not be appropriate for any other purpose, including investment decisions.

Forward-looking statements are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Generally, risks and uncertainties that may cause actual results to vary materially include, but are not limited to, changes in gold prices, changes in interest and currency exchange rates, acts of foreign governments, inaccurate geological and metallurgical assumptions (including with respect to the size, grade and recoverability of mineral reserves and resources),

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unanticipated operational difficulties (including failure of plant, equipment or processes to operate in accordance with specifications or expectations, cost escalation, unavailability of materials and equipment, government action or delays in the receipt of government approvals, adverse weather conditions and unanticipated events related to health, safety and environmental matters), labour disputes, political risk, social unrest, failure of counterparties to perform their contractual obligations, changes in our credit ratings and changes or further deterioration in general economic conditions, uncertainties with respect to operating in Brazil, including political unrest, theft, uncertainties with respect to the rule of law, corruption and uncertain court systems and other risks discussed elsewhere in this MD&A and our latest AIF filed on SEDAR at www.sedar.com.

Forward-looking statements speak only as of the date those statements are made. Except as required by applicable law, we assume no obligation to update or to publicly announce the results of any change to any forward-looking statement contained or incorporated by reference herein to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements. If we update any one or more forward-looking statements, no inference should be drawn that we will make additional updates with respect to those or other forward-looking statements. You should not place undue importance on forward-looking statements and should not rely upon these statements as of any other date. All forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement.

Technical Information

Except as otherwise specified, Peter Mah, P.Eng., the Company's former Chief Operating Officer, is the Qualified Person as defined under National Instrument 43-101 responsible for the scientific and technical work on the development programs and has reviewed and approved the corresponding technical disclosure throughout this MD&A. For additional details on Luna's QA/QC program for exploration work and other technical information, please refer to the Company's latest AIF and the Aurizona Technical report.

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