Management's Discussion and Analysis

First Quarter Ended March 31, 2015

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

May 13, 2015

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the condensed consolidated financial statements ended March 31, 2015 and the audited consolidated financial statements for the year ended December 31, 2014 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, are contained in the Company's most recently filed AIF and technical reports.

FIRST QUARTER 2015 HIGHLIGHTS

		Q1 2015
Gold production (ounces)		**18,790**
Gold sales, including sales to Sandstorm (ounces)		**23,216**
Finished gold inventory at March 31, 2015 (ounces)		**6,799**
Net realized gold price received, including gold sales to Sandstorm (USD per ounce)	**$**	**1,110**
Total cash cost of production [1] (USD per ounce)	**$**	**655**
All-in sustaining cost of production [1] (USD per ounce)	**$**	**678**
All-in cost [1] (USD per ounce)	**$**	**804**
Gross profit (USD millions)	**$**	**5.8**
Net loss (USD millions)	**$**	**(3.4)**
Loss per share - basic and fully diluted (USD)	**$**	**(0.02)**
Cash flow per share from operating activities before changes in non-cash working capital [1] (USD)	**$**	**0.04**
Cash flow from operating activities before changes in working capital [1] (USD millions)	**$**	**5.5**
Cash flow from operating activities after changes in working capital [1] (USD millions)	**$**	**9.4**
Cash flow from financing activities (USD millions)	**$**	**(4.2)**
Cash payments on sustaining capital (USD millions)	**$**	**(0.4)**
Cash balance at March 31, 2015 (USD millions)	**$**	**3.8**

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

Company Developments:

- On May 7, 2015, the Company announced that the Company has entered into a definitive agreement for a C$30.0 million financing by Pacific Road Resources Fund (the "Pacific Road Financing"), consisting of a C$20.0 million debenture and a C$10.0 million private placement equity financing. This proposed Pacific Road Financing is subject to a number of conditions, including (i) a concurrent restructuring of the Company's gold stream and credit facilities with Sandstorm Gold Ltd. ("Sandstorm"), (ii) regulatory approvals, including the approval of the Toronto Stock Exchange, and (iii) the approval of Luna's shareholders in accordance with the policies of the Toronto Stock Exchange;
- On May 7, 2015, the Company entered into a definitive agreement to restructure the Sandstorm Stream Agreement, which includes the termination of the existing gold stream to be replaced by two net smelter return royalties and a convertible debenture (the "Sandstorm Restructuring");
- In Q1 2015, the Company entered into a forbearance agreement (the "Forbearance Agreement") with Société Générale, Mizuho Bank, Ltd. and the other parties (collectively, the "Finance Parties") to the Company's February 15, 2013 credit agreement, as amended (the "Corporate Facility"), in connection with the Company not being in compliance with certain covenants under the Corporate Facility. Under the terms of the Forbearance Agreement, the Finance Parties will refrain from exercising any rights or remedies that they may have under the Corporate Facility or otherwise in respect of the Company's covenant breach and any subsequent default by the Company until May 15, 2015. The Company expects to receive an extension to this forbearance in order to achieve the Pacific Road Financing;
- In Q1 2015, the Company released an updated NI 43-101 Resource report dated March 27, 2015;
- In Q1 2015, the Company announced the suspension of mining operations at Aurizona and a plan to process the existing ore stockpile through the process plant over the first half of 2015;
- In Q1 2015, the Company announced that the core relogging program of the Piaba resource drill holes resulted in a new geologic model, including the reinterpretation of geology, alteration, oxidation, structure and ore hardness. This new model resulted in a material reduction in the amount of remaining saprolite ore that can be processed through the existing plant. As a result of the new geologic model, the suspension of mining operations and the need for additional capital to restart economical mining activities, the Aurizona existing mineral reserve estimates (effective as of January 29, 2013) contained in its public disclosure and in its last technical report are no longer considered current and should therefore not be relied upon; and
- In Q1 2015, Marc Leduc was appointed to the position of Director, CEO and President of the Company.

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, and developing gold properties. The Company currently has one producing gold mine, brownfield exploration projects and greenfield exploration projects located in northeast Brazil.

The Company's main focus is the Aurizona gold mining operation ("Aurizona" or the "Aurizona Project") 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 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 190,000 hectares. The project area encompasses over 100 artisanal gold workings.

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

OUTLOOK AND STRATEGY

Pacific Road Financing

The Company expects to use the proceeds from the Pacific Road Proposed Financing to: (i) repay its existing debt facility with Société Générale (Canada Branch) and Mizuho Corporate Bank (the "Senior Lenders"); (ii) commence an infill drilling program, prepare engineering studies and submit updated permits at the Aurizona Project; and (iii) for general working capital and corporate purposes.

Secured Debenture

Under the terms of the Pacific Road Financing, Pacific Road will provide the Company with a C$20.0 million senior secured note bearing interest at a rate of 10% per annum (the "Pacific Road Note"), payable quarterly in arrears in cash or shares at Pacific Road's election. The Pacific Road Note is required to be secured by first-ranking liens and encumbrances and is expected to mature on June 30, 2020 and if the Company were to enter into default on the Pacific Road Note the interest rate would increase to 15% per annum. All outstanding amounts, including principal and any remaining accrued interest, will be payable at maturity. The Company has also agreed to provide Pacific Road with 200 million class B common share purchase warrants, exercisable for a term of 5 years at C$0.10 (the "Class B Warrants").

Subject to the receipt of all required approvals, Pacific Road will have the right to reduce the Pacific Road Note outstanding as satisfaction of the exercise proceeds of the Class B Warrants.

Private Placement

Pacific Road has also agreed to invest C$10.0 million in a non-brokered private placement (the "Private Placement") of units in the capital of Luna ("Units"). Each Unit will consist of one common share and one common share purchase warrant (a "Warrant"). Subject to receipt of all required approvals, the issue price of the Unit will be C$0.10 per Unit. The Warrants will have an exercise price of C$0.125 per Luna common share and will be exercisable for a term of 5 years.

It is anticipated that an offer will be made to Luna's existing shareholders, including Sandstorm, and to new investors, to participate in the Private Placement for up to an additional C$15.0 million, subject to compliance with securities laws.

Any securities issued under the Private Placement will be subject to a four month hold period which will expire four months plus one day from the closing date of the Private Placement.

Conditions

The Pacific Road Financing is subject to a number of conditions, including (i) the concurrent completion of the Restructuring, (ii) regulatory approvals such as the approval of the Toronto Stock Exchange, (iii) the approval of Luna's shareholders in accordance with the policies of the Toronto Stock Exchange and applicable securities laws at a meeting which we anticipate will be held on or around June 18, 2015, and (iv) other customary closing conditions. Until the conditions are satisfied there can be no assurance that the Pacific Road Financing will be completed. The Pacific Road Financing, if completed, will raise C$10.0 million of the C$20.0 million in equity financing that is a condition of the Sandstorm Restructuring. The Company anticipates completion of the Pacific Road Financing on or around June 30, 2015, assuming the foregoing conditions can be met. If the Pacific Road Financing and Sandstorm Restructuring are not completed, the Senior Lenders will be in a position to accelerate our senior debt due to our previously announced covenant breaches and commence enforcement proceedings against the Company and its assets. The Company cannot give any assurance that the Senior Lenders will continue to forbear from taking such actions if the Pacific Road Financing and Sandstorm Restructuring fail to complete, whether due to an absence of shareholder approval of the transactions or otherwise.

In connection with the Pacific Road Financing, Pacific Road is requiring that the Company grant it certain rights, including a pro rata participation right in future equity financings, registration rights in certain circumstances and the right to appoint a number of directors to Luna's board that is equal to Pacific Road's fully diluted pro rata equity ownership in the Company assuming exercise of its Class B warrants. Assuming the additional C$15.0 million Private Placement is fully subscribed, Pacific Road's fully-diluted pro-rata equity ownership will be 48% and Pacific Road will have the right to nominate three of Luna's seven directors.

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

On closing of the Pacific Road Financing, Pacific Road will require that the Company pay it a fee equal to 4% of the principal amount of the Debenture and 2% of the gross proceeds from Pacific Road's subscription to the Private Placement. Pursuant to the Definitive Agreement, the Company has agreed in certain circumstances to pay Pacific Road a break fee of C$1.2 million if the Pacific Road Financing does not close.

Sandstorm Restructuring Proposal

The Company has entered into a definitive agreement with Sandstorm outlining a restructuring of its gold stream and debt facility agreement, the Sandstorm Restructuring. Sandstorm currently holds a 17% gold stream (the "Gold Stream") on the Aurizona Project and has a debt facility outstanding to Luna with a principal amount of $20.0 million (the "Sandstorm Debt Facility").

Gold Stream Restructuring

Under the terms of the Proposed Restructuring, the Gold Stream would be terminated and replaced by two net smelter return royalties ("NSR") (the "Aurizona Project NSR" and the "Greenfields NSR") and a convertible debenture. The Aurizona Project NSR would cover the entire Aurizona Project, including the NI 43-101 compliant Resources, and all adjacent exploration upside that would be processed through the Aurizona mill net of certain third party refining costs. The Aurizona Project NSR would be a sliding scale royalty based on the price of gold as follows:

- 3% if the price of gold is less than or equal to $1,500 per ounce;
- 4% if the price of gold is between $1,500 per ounce and $2,000 per ounce; and
- 5% if the price of gold is greater than $2,000 per ounce.

The Greenfields NSR covers approximately 190,000 hectares of exploration ground, Luna Greenfields, held by the Company and is a 2% NSR. The Company would have the right to purchase one-half of the Greenfields NSR for $10 million at any time prior to achieving commercial production.

Sandstorm would hold a right of first refusal on any future streams or royalties on the Aurizona Project and Greenfields.

Under the Proposed Restructuring, Sandstorm would also receive a $30.0 million debenture bearing interest at a rate of 5% per annum (the "Debenture"). The Debenture would be payable in three equal annual tranches of $10.0 million plus accrued interest beginning January 1, 2018. Luna would have the right to convert principal and interest owing under the Debenture into common shares of Luna, so long as Sandstorm does not own more than 20% of the outstanding common shares of Luna.

Sandstorm $20.0 million Debt Facility Agreement

Under the existing Sandstorm Debt Facility amendment, the maturity date of the Sandstorm Debt Facility would be extended from June 30, 2017 to June 30, 2021, the interest rate would be revised to 5% per annum, payable in cash on the maturity date, and Luna would be subject to a default rate of interest equal to 10% per annum.

Conditions

The Sandstorm Restructuring is subject to a number of conditions, including (i) a concurrent equity raise with gross proceeds to the Company of at least C$20.0 million, (ii) regulatory approvals, including the approval of the Toronto Stock Exchange, (iii) the approval of Luna's shareholders, and (iv) the negotiation and execution of definitive agreements for the Sandstorm Restructuring. Until the conditions are satisfied there can be no assurances that the Sandstorm Restructuring will be completed. Subject to the execution of definitive agreements, the Company anticipates completion of the Sandstorm Restructuring on or around June 30, 2015, assuming the conditions can be met.

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

Aurizona Operation

The Company suspended mining operations at Aurizona on February 15, 2015 with an ore stockpile of approximately 470,000 tonnes of mixed soft and hard saprolite ore containing an average expected head grade of 1.12 grams per tonne of gold and 390,000 tonnes of transitional ore containing an average expected head grade of 1.06 grams per tonne of gold. This stockpile is currently being processed through the plant and is expected to last until August 2015.

Upon exhausting the ore stockpile, the Company will cease operations and place the existing facilities into a care and maintenance condition. This will require all the equipment to be cleaned and placed in a secure manner. The Company has filed for a care and maintenance permit in Brazil.

The timing of and the milestones outlined below are management's proposed planned targets only. Certain milestones are dependent on earlier targeted milestones being achieved. These targets are forward looking in nature and subject to the Company securing the required financing, the completion of the restructuring of the streaming relationship with Sandstorm, completing the required studies, technical report and obtaining all applicable approvals and meeting various other conditions. There is no assurance that these targeted milestones will be achieved on time or at all. See "Forward Looking Statements".

Upon achievement of the Pacific Road Financing and Sandstorm Restructuring, the Company will be in a position to undertake a work program which will have the ultimate goal of restarting operations at the Aurizona gold mine. The proposed 18-month work program will involve significant infill drilling programs, updating the geological model, calculating a new resource, formulating a new and optimized mine plan, producing an updated prefeasibility study and continuing the on-going licensing and permitting process to ultimately secure a permit to restart Aurizona. Commencing in mid-2016, the Company expects to use the augmented drill hole data and the pre-feasibility study to move on to detailed engineering and ultimately the restart of the mine as a hard rock operation.

It is anticipated that additional financing will be needed for the construction and restart of the Aurizona mine because it is likely that a new crushing and grinding circuit will be required to process the different types of ore in the existing ore body. The balance of the processing circuit will benefit from the significant capital spent on the Phase I plant upgrade, which was stopped by the Company in the Third Quarter of 2014, after having spent over $40.0 million on this Phase I work.

The updated and revised mine plan will require amendments to some of our existing permits at Aurizona as well as other permitting activities for some off-site infrastructure. Luna will be working diligently with the relevant government authorities in Brazil to advance the permitting process. Many of the required permits will be amendments to existing permits.

Luna's community relation's initiatives will continue to focus on building capacity within the communities in our area of influence and on multi-stakeholder partnership models, that involve strengthening local labor skills through the establishment of partnerships with the Industry State Federation (FIEMA), and partnerships with state and local governments and community associations on campaigns to raise social awareness about important issues, such as children's education, community safety and security, and the prevention of domestic violence and substance abuse, and our Open Door program to provide information to the public on an ongoing basis regarding mining activities in a framework of openness and transparency.

NATURE OF OPERATIONS AND GOING CONCERN

The Condensed 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 has temporarily ceased mining operations and filed for a care and maintenance permit. Additional capital is required to construct a hard rock processing facility and increase the tailings storage facility to be able to process the majority of the material included in the Aurizona resource. The Company is not in compliance with certain debt covenants which may require the Company to repay its outstanding debt immediately. The Company's ability to continue as a going concern is dependent upon securing additional financing to repay its outstanding debt. If financing cannot be achieved, the Company will not have the ability to meet its debt obligations. Additionally, if the lenders of the Corporate Facility request early repayment, the Company must raise additional capital or evaluate strategic alternatives. The Company has entered into a forbearance agreement with the lender of the Corporate Facility whereby they have agreed to refrain from exercising rights or remedies until May 15, 2015. The Company

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

expects to receive an extension to this forbearance to provide enough time to complete the transactions discussed below. Without successful approval of additional financing, the Company does not expect to remedy its default under its covenants under the Corporate Facility.

As discussed above, the Company has entered into definitive agreements with Pacific Road and Sandstorm for the Pacific Road Financing and the Sandstorm Restructuring.

If the Pacific Road Financing and Sandstorm Restructuring is not completed or approved and the Forbearance Agreement is not extended, the lender of the Corporate Facility would be entitled to exercise their rights under the Corporate Facility. The Company has no assurance that such actions will be successful. 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 Condensed Consolidated Financial Statements and Management Discussion and Analysis do not reflect adjustments that would be necessary if the going concern assumption is 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.

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

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, Tatajuba, Boa Esperança, Ferradura and Conceição gold deposits, in addition to several near-mine gold exploration targets. 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.

Operating results

	Three months ended March 31			
(tabled monetary amounts are expressed in thousands of US dollars)	**2015**		2014	
Mined waste – tonnes	**396,784**		960,010	
Mined ore – tonnes	**433,557**		336,242	
Ratio of waste to ore	**0.9**		2.9	
Ore grade mined (g/t)	**1.36**		1.85	
Cost per tonne mined (USD)	**$ 4.44**		$ 3.93	
Processed ore – tonnes	**433,287**		486,839	
Average grade processed (g/t)	**1.46**		1.40	
Average recovery rate %	**90%**		89%	
Gold produced (ounces)	**18,790**		19,414	
Gold sales (ounces)	**23,216**		23,002	
Cash costs of production (1)	**USD per ounce**	**USD per tonne processed**	**USD per ounce**	**USD per tonne processed**
Mining	**$ 207**	**$ 11**	$ 276	$ 12
Processing	**344**	**15**	326	12
Administration	**71**	**3**	70	3
Refining and transport	**21**	**1**	20	1
Royalties	**12**	**1**	13	1
Total cash costs of production (1)	**$ 655**	**$ 31**	$ 705	$ 29
Sustaining capital	**23**		31	
Brownfield exploration	**-**		51	
All-in sustaining costs (1)	**$ 678**		$ 787	

Mining production

The Company suspended mining operations during the quarter ended March 31, 2015. As a result, total material mined (ore and waste) decreased from the comparative quarter of 2014 by 36%.

The Company's primary focus was to extract ore and minimize waste removal prior to the suspension of mining activities. As a result, the Company mined 29% more ore than the comparative quarter of 2014 and reduced waste stripping by 59% from this same quarter. The grade of the ore mined was significantly lower than Q1 2014, but was more in line with the ore body's average gold grade. The ore grade in Q1 2014 was high due to mining a higher than normal grade mineralized zone.

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

The cost per tonne mined in Q1 2015 was 13% higher than the same quarter in 2014 due to additional costs related to the reduction in the mining workforce and other suspension costs, which was partially offset by positive gains in the BRL:USD exchange rate associated with mining costs.

Mill processing

Gold production continued as planned with the processing of the ore stockpile that was built up in Q4 2014. The Company processed approximately 11% less ore than Q1 2014 at a slightly higher average ore grade. This resulted in total gold production being 3% lower than Q1 2014.

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 is typically lower in this period than other periods of the year and the unit cost of production are generally 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 costs of production was 7% lower than Q1 2014 due to lower mining costs, which was partially offset by higher processing cost per unit. Mining cost per ounce was lower in 2015 due to lower waste stripping. Processing cost per ounce was higher than Q1 2014 due to lower ore tonnes processed through the plant and higher consumable costs related to inflation.

Exploration

Exploration activities focused on first pass drill testing for saprolite mineralization at two brownfields targets in the region east of the Piaba Mine and totalled 15 Reverse Circulation drill holes comprising 1,530 metres. These drill holes are still pending assay results. In addition, the results for 2014 drill holes were received and the new information has been added to the geological, structural and regolith mapping of the Piaba and surrounding areas. Upon receipt of the complete set of data, the results will be reviewed and plans made for any follow-up drilling.

Permitting

The Company has filed an application to request a temporary suspension of mining activities with the Brazilian Mining Department ("DNPM") and the State Environment Authority ("SEMA"). Once approved, the Company will be required to monitor key infrastructure items, such as the tailings dam and waste rock dump, site water management and effluent control systems, among others. Once the Company is ready to resume operations, an application will need to be filed with the DNPM which reviews the plan to request the resumption of mining activities.

The application for a mining concession for the Tatajuba claims was submitted in March 2012 and remains under review by the DNPM. The Company is currently progressing the Environmental Impact Assessment ("EIA-RIMA") process and is targeting to receive approval of the Tatajuba mining concessions in the second half of 2016.

Future permits will be subject to any changes made to the process plant, tailings management facility and other key infrastructure for the future hard rock facility. These changes will need to be presented to the DNPM and SEMA during the care and maintenance period as well as the filing for resumption of the mining activities.

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 190,000 hectares, and are located within the São Luis Craton in the southeast part of the Guyana shield, which hosts several major gold deposits, including Rosebel and Las Cristinas.

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

During 2013, all greenfields 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.

Touro Gold Target

Touro was an active garimpo (artisanal mine) in the 1980s. During that time, quartz veins and stockworks hosted in altered tonalities and diorites were mined from open pits and underground workings along a north-south shear zone. A large tailings deposit, the product of artisanal mining, extends for 1 kilometre north-south at Touro. Outcrop is limited to the walls and floors of garimpo pits. In 2014, the Company completed initial metallurgical testing at Touro to support submission of a Positive Final Exploration Report and Request for a Mining Concession for the exploration licenses that was submitted in November 2014.

The Company expects to receive these licenses in the second half of 2015.

SUMMARY OF CONSOLIDATED FINANCIAL OPERATING RESULTS

	Three months ended March 31			
(tabled amounts are expressed in millions of US dollars, except per share amounts and ounces of gold)		**2015**		**2014**
Gold sales, including Sandstorm (ounces)		**23,216**		23,002
Revenue	**$**	**25.9**	$	25.9
Production costs		**(18.6)**		(15.7)
Depreciation and amortization		**(1.5)**		(1.3)
Gross profit		**5.8**		8.9
General & administration		**(2.0)**		(2.2)
Share-based compensation		**-**		(0.2)
Exploration expense		**(0.3)**		(0.4)
Financing cost, net		**(2.0)**		(0.1)
Financial instruments (loss) gain		**(3.5)**		3.1
Foreign exchange loss		**(1.4)**		(0.1)
Income tax expense		**-**		(1.5)
Net (loss) income	**$**	**(3.4)**	$	7.5
Basic/diluted income (loss) per share	**$**	**(0.02)**	$	0.07
Total assets	**$**	**118.6**	$	231.5
Total non-current liabilities	**$**	**16.3**	$	47.2

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

Revenue in Q1 2015 was comparable to the same quarter in 2014 as both the number of ounces and realized gold price received were similar to each quarter. The Company's average realized price of gold received on sales (including amounts delivered to Sandstorm) for the quarter ended March 31, 2015 was $1,110 per ounce compared to $1,123 per ounce in Q1 2014.

Production costs in Q1 2015 were higher than Q1 2014 due to the sale of gold that was produced at higher costs in the previous quarter. In both Q1 2015 and 2014, gold sales included a substantial number of ounces that were produced in the previous quarter. As a result, the costs associated with the gold produced in the previous quarter are realized in Q1 2015 and 2014, at the time of sale.

In Q4 2014, the Company increased its waste stripping in an effort to build up a stockpile to be processed in the first half of 2015. As a result, mining costs associated with gold production in Q4 2014 were much higher than the comparative quarter in 2013. This higher cost gold inventory was sold during Q1 2015, resulting in an overall higher cost of production compared to the same quarter in 2014,

Depreciation and amortization for Q1 2015 was comparable to Q1 2014.

General and administrative expenses in Q1 2015 were slightly lower than the comparative quarter of 2014. In Q1 2015, the Company's administrative costs were substantially reduced, but this was offset by higher costs associated with strategic advisors and legal counsel associated with the Company's renegotiations with Sandstorm and its efforts to refinance the Company.

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.

Exploration expense for Q1 2015 was comparable to Q1 2014.

Net financing costs in Q1 2015 included forbearance fees, interest, debt advisory costs and legal costs associated with the non-compliance of the existing debt covenants. These costs were substantially higher than Q1 2014 due to the costs associated with the non-compliance of debt covenants and a higher interest rate. In addition, interest was higher on the Sandstorm loan due to a higher outstanding balance.

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.

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

The Company was in a loss position for Q1 2015 and did not reflect any tax loss recovery. An income tax expense was recognized in Q1 2014 due to the Company recognizing income during the quarter.

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

Quarterly Financial Data – 2 year historic trend

(tabled amounts are expressed in millions of US dollars, except per share data and ounces of gold)	**Q1 15**	Q4 14	Q3 14	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13
Total gold sales, including Sandstorm sales (ounces)	**23,216**	17,972	17,535	13,882	23,003	16,755	19,812	22,820
Average realized gold price, including Sandstorm sales (per ounce)	**$ 1,110**	$ 1,075	$ 1,148	$ 1,158	$ 1,123	$ 1,157	$ 1,160	$ 1,298
Total cash cost of production [1] (per ounce)	**$ 655**	$ 889	$ 1,041	$ 1,140	$ 705	$ 652	$ 751	$ 694
All-in sustaining cost of production [1] (per ounce)	**$ 678**	$ 978	$ 1,118	$ 1,297	$ 787	$ 832	$ 841	$ 864
Revenue	**$ 25.9**	$ 19.4	$ 20.2	$ 16.1	$ 25.9	$ 19.5	$ 23.1	$ 29.7
Production costs	**(18.6)**	(20.0)	(22.3)	(14.8)	(15.5)	(12.4)	(14.8)	(16.8)
Depreciation and amortization	**(1.5)**	(1.3)	(1.1)	(1.2)	(1.4)	(1.5)	(1.2)	(2.1)
Gross profit	**$ 5.8**	$ (1.9)	$ (3.2)	$ 0.1	$ 9.0	$ 5.6	$ 7.1	$ 10.8
Impairment of property, plant and equipment and other charges	-	$ (8.8)	$ (102.0)	-	-	-	-	-
Net income (loss)	**$ (3.4)**	$ (18.7)	$ (110.4)	$ 0.1	$ 7.5	$ (0.5)	$ 0.2	$ 8.7
Basic/diluted income (loss) per share	**$ (0.02)**	$ (0.13)	$ (0.83)	$ 0.00	$ 0.07	$ (0.00)	$ 0.00	$ 0.08

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 quarters are also partly a 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 quarters are a result of the variations in revenue, production costs, depreciation expense and timing of gold sales discussed above.

Variations in net income (loss) and basic/diluted income (loss) per share are a 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, taxation and timing of gold sales. The Q3 and Q4 2014 results include an impairment charge of approximately $102.0 and $8.8 million, respectively, recorded to write-down the Aurizona Gold mine to its estimated recoverable amount.

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

LIQUIDITY AND CAPITAL RESOURCES

	Three months ended March 31	
(tabled amounts, except per share data, are expressed in millions of US dollars)	**2015**	**2014**
Cash flows from operating activities		
- Before changes in non-cash working capital items [(1)]	**$ 5.5**	$ 7.6
- After changes in non-cash working capital items [(1)]	**9.4**	4.4
Cash flows from investing activities	**(4.7)**	(3.3)
Cash flows from financing activities	**(4.2)**	16.2
Net cash flows	**0.5**	17.3
Effect of exchange rate changes on cash	**(0.4)**	0.2
Cash balance	**$ 3.8**	$ 23.5
Cash flows from operating activities per share [(1)]		
- Before changes in non-cash working capital items	**$ 0.04**	$ 0.07
- After changes in non-cash working capital items	**$ 0.07**	$ 0.04

For the quarter ended March 31, 2015, the Company generated higher cash flows after working capital movements compared to the same quarter of 2014 due to the processing of inventory, specifically the ore stockpile in Q1 2015.

At March 31, 2015, the Company had cash of $3.8 million and finished gold bullion inventory of approximately 6,700 ounces. The Company also had a restricted cash balance of $1.8 million which is held on deposit against future currency exchange contract settlements.

Cash outflow from investing activities for Q1 2015 primarily consisted of expenditures on the tailings facility. Payments made in Q1 2014 were related to the Phase I expansion.

Cash outflows from financing activities in Q1 2015 include $7.9 million in debt repayment to Society Generale and Mizuho and $1.1 million in interest and other finance related costs, which was offset by a transfer of $4.8 million in restricted cash proceeds to repay the debt. Included in financing activities in Q1 2014 were $16.7 million related to the issuance of common shares.

As at March 31, 2015, 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**
Debt obligations	36.5	36.5	-	-	-	-	-
Interest on debt	3.1	3.1	-	-	-	-	-
Accounts payable and accrued liabilities	8.9	8.9	-	-	-	-	-
Phase I Completion Guarantee	4.7	-	4.7	-	-	-	-

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

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

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 the Finance Parties.

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.

In March 2015, the Company entered into a Forbearance Agreement with the Finance Parties in connection with the Company not being in compliance with certain covenants under the Corporate Facility. Under the terms of the Forbearance Agreement, the Finance Parties agreed to refrain from exercising any rights or remedies that they may have under the Corporate Facility or otherwise in respect of the Company's covenant breach and any subsequent default by the Company until May 1, 2015, unless a breach of the Forbearance Agreement occurs. On May 1, 2015, the forbearance agreement was extended to May 15, 2015. The Company expects to receive an extension to this forbearance to provide enough time to complete the Pacific Road Financing and Sandstorm Restructuring. The Company does not expect to remedy its default under the Corporate Facility prior to the close of these transactions. If the financing transaction does not take place and the Forbearance Agreement is not further extended, the Finance Parties would be entitled to exercise their rights under the Corporate Facility.

As compensation for their forbearance, the Company paid the Finance Parties a total fee of $0.1 million and applied approximately $6.7 million in cash held in a reserve account in part to the outstanding principal amount owed under the Corporate Facility and in part as security for outstanding obligations under the related hedge agreements.

Sandstorm Debt Facility

In September 2013, AGC drew down $10.0 million of a Debt Facility with 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 brownfields exploration program at Aurizona. The objective of this 3 to 5 year exploration program was 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 agreed to grant an interest free period of up to 16 months on the portion of the Sandstorm Debt Facility that funds brownfields 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. Due to the cross default provision with the bank debt, the Company has classified this as a current liability in its year-end financial statements.

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.

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

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.

Derivative Contracts

As required by the Corporate Facility, the Company entered into gold forward and foreign exchange forward contracts until June 2016. As at March 31, 2015, the Company had the following derivative contracts outstanding:

BRL / USD Forward Contracts

The Company sells US dollars and buys Brazilian Real as follows:

Expiry Date	Notional Amount (USD)	BRL / USD Price
June 15, 2015	$6,000	2.04843
September 8, 2015	$6,000	2.29830
December 15, 2015	$6,000	2.11206
March 8, 2016	$6,000	2.36400
June 15, 2016	$6,000	2.16633

Gold Forward Contracts

The Company sells gold bullion as follows:

Settlement Date	# of Ounces	Contract Price per ounce
June 22, 2015	1,914.51	$1,566.98
September 21, 2015	1,914.51	$1,566.98
December 21, 2015	1,914.51	$1,566.98
March 21, 2016	1,914.51	$1,566.98
June 20, 2016	1,914.51	$1,566.98

Subsequent to quarter end, the Company closed all its gold forward contracts and used the proceeds to close out certain BRL / USD forward contracts. Total cash proceeds of $3.6 million from the gold forward contracts and the $1.9 million of restricted cash were used to close out the June 15, 2016, March 8, 2016 and part of the December 15, 2015 and September 8, 2015 BRL / USD forward contracts.

SHAREHOLDERS' EQUITY

Shareholders' equity decreased from December 31, 2014 due to the net loss in Q1 2015.

As at the date of this report the Company had outstanding 141,478,566 common shares and options to purchase 5,911,200 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
1,831	1,831	1.55 – 3.15	Jul – Sep 2015
1,130	1,130	2.30 – 3.25	Apr – Oct 2016
1,561	1,553	2.10 – 3.55	Mar – Nov 2017
684	471	1.55 – 3.01	Apr – Aug 2018
705	174	1.08 – 1.16	Mar – Jun 2019
5,911	5,159		

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

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, the first of 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 further mine expansions or the implementation of new mining operations. Such applications are subject to approval by SUDENE.

SANDSTORM DEFINITIVE AGREEMENT AND AMENDMENT AGREEMENT

In May 2009, the Company entered into a definitive agreement with Sandstorm (the "Sandstorm Stream Agreement") 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.

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 $408 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.

These agreements are subject to the Sandstorm Restructuring which was previously outlined above.

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.

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 March 31	
(tabled amounts are expressed in millions of US dollars, except gold ounces and per ounce amounts)	**2015**	**2014**
Total production costs	**$ 18.6**	$ 15.7
Add (subtract):		
Finished goods and WIP inventory stock adjustment and other	**(6.3)**	(2.0)
Total cash cost of production	**$ 12.3**	$ 13.7
Gold ounces produced	**18,790**	19,414
Total cash cost of production (per ounce)	**$ 655**	$ 705
Add:		
Sustaining Capital	**$ 0.4**	$ 0.6
Brownfield Exploration	**-**	1.0
Total other operating cash cost of production	**$ 0.4**	$ 1.6
Gold ounces produced	**18,790**	19,414
Total other operating cash cost of production per ounce	**$ 23**	$ 82
All-in sustaining cost of production (per ounce)	**$ 678**	$ 787
Add:		
Greenfield Exploration	**$ 0.4**	$ 0.4
Corporate Expenditures	**2.0**	2.2
Total Greenfield and Corporate Expenditures	**$ 2.4**	$ 2.6
Gold ounces produced	**18,790**	19,414
Total Greenfield Exploration and Corporate Expenditures (per ounce)	**$ 126**	$ 134
All-in cost (per ounce)	**$ 804**	$ 921

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.

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

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

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 March 31, 2015, the Company has entered into operating office leases for approximately $0.7 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)	March 31, 2015	December 31, 2014
Financial assets:		
Loans and receivables:		
Cash and cash equivalents	**$ 3.7**	$ 3.7
Restricted cash	**1.9**	6.7
Sandstorm Phase 1 expansion receivables	**1.7**	1.7
Notes receivable	**3.7**	3.8
Held for trading:		
Marketable securities and share consideration	**1.1**	1.1
Derivative asset	**3.6**	4.3
Total financial assets	**$ 15.7**	$ 21.3
Financial liabilities:		
Held for trading:		
Derivative liabilities	**$ 10.0**	$ 7.5
Other:		
Accounts payable and accrued liabilities	**8.9**	13.0
Long-term debt, including current portion	**39.1**	46.3
Total financial liabilities	**$ 58.0**	$ 66.8

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).

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

CRITICAL ACCOUNTING 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

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

availability of financing; and various operational factors. 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 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 update was released with the update of the updated 43-101 Technical Report. This Report showed a reduction in the mineral resources due primarily to a reduction in the assumed metal price used in assessing the resource. In addition, the company chose to withdraw all of the mineral reserves pending the release of a new independent 43-101 technical report assessing the economic viability of the addition of a hard rock crushing and grinding circuit to the existing processing plant.

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 is incurred. 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.

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

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.

Liquidity risk

The Company tries to manage 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. See section entitled "Nature of Operations and Going Concern" for additional details on the Company's current liquidity position and material uncertainties regarding the Company's ability to continue as a going concern.

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.

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 entered into foreign exchange forward contracts up to 2016.

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

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, 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) the most current resource and reserve update presents a decrease from the previous resource and a withdrawal of the reserve estimates disclosed by the Company, and therefore investors are accordingly cautioned that the Company may not issue an update to the reserves and an inclusion of a reserve update in the future will only be supported by a prefeasibility study on the mine that identifies additional near surface soft saprolite material or establishes the economics of the hard-rock plant; (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.

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

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 March 31, 2015 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 processing of stockpile and timing thereof, timing of the completion of the Pacific Road Financing and Sandstorm Restructuring, cash costs, all-in sustaining costs, all-in costs, future costs and timing for the mineral reserve update, future processing rates, resource estimates 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 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 uncertainties associated with suspending and restarting the Aurizona operations, changes in gold prices, changes in interest and currency exchange rates, acts of foreign governments, inaccurate geological and metallurgical assumptions (including with

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

respect to the size, grade and recoverability of mineral resources), 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, uncertainties with respect to non-compliance with the Company's debt covenants, uncertainties of completing the restructuring of the streaming arrangements with Sandstorm, uncertainties of the outcome of the strategic review process 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, Marc Leduc, P.Eng., the Company's President and Chief Executive 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 and scientific 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.

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