

# **Luna Gold Corp.**

Condensed Consolidated Financial Statements (Unaudited)

**September 30, 2015 – Third Quarter**

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

# Luna Gold Corp.

## Condensed Consolidated Statements of Comprehensive (Loss) Income

For the three and nine months ended September 30, 2015 and 2014 (Unaudited)

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

	Note	Three months ended September 30		Nine months ended September 30	
		2015	2014	2015	2014
<b>Revenue</b>					
Gold sales		\$ 10,221	\$ 20,189	\$ 53,489	\$ 62,204
<b>Operating expenses</b>					
Production costs		(9,766)	(22,249)	(41,604)	(52,673)
Depletion and amortization		(711)	(1,104)	(3,304)	(3,645)
<b>Gross profit</b>		(256)	(3,164)	8,581	5,886
Exploration		(1,332)	(515)	(1,989)	(1,208)
General and administrative		(1,667)	(2,439)	(5,412)	(7,023)
Share-based compensation	12	(18)	(8)	110	(281)
Impairment of property, plant and equipment		-	(102,000)	-	(102,000)
<b>Operating (loss) profit</b>		(3,273)	(108,126)	1,290	(104,626)
Foreign exchange (loss) gain		(1,334)	(829)	(3,173)	866
Financial instruments gain (loss)	15	4,787	(324)	1,391	3,496
Finance income		150	175	446	592
Finance cost	14	(1,937)	(572)	(4,923)	(1,426)
Restructuring cost	3	-	-	(1,847)	-
Other income		1,370	-	472	-
<b>Loss before income taxes</b>		\$ (237)	\$ (109,676)	\$ (6,344)	\$ (101,098)
Income tax expense		-	(675)	-	(1,685)
<b>Net loss and comprehensive loss</b>		\$ (237)	\$ (110,351)	\$ (6,344)	\$ (102,783)
<b>Net loss per common share</b>					
Basic		\$ (0.00)	\$ (0.83)	\$ (0.03)	\$ (0.84)
Fully diluted		\$ (0.00)	\$ (0.83)	\$ (0.03)	\$ (0.84)
<b>Weighted average shares outstanding (000's)</b>					
Basic		266,270	133,212	183,533	122,287
Fully diluted		266,270	133,212	183,533	122,287
<b>Total shares issued and outstanding (000's)</b>		274,557	141,478	274,557	141,478

Note 1 – Nature of operations and going concern

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

# Luna Gold Corp.

## Condensed Consolidated Statements of Financial Position

As at September 30, 2015 and December 31, 2014 (Unaudited)

(expressed in thousands of U.S. dollars)

	Note	September 30, 2015	December 31, 2014
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 10,680	\$ 3,694
Restricted cash		-	6,690
Accounts receivable and prepaid expenses	4	4,905	4,408
Current portion of derivative asset	15	-	2,887
Other financial assets	15	976	1,408
Inventory	5	2,460	26,399
		19,021	45,486
Property, plant and equipment	6	68,471	71,562
Derivative asset	15	-	1,390
Other financial assets	15	3,618	3,541
Other assets	7	12,595	13,274
Total assets		\$ 103,705	\$ 135,253
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities		\$ 3,579	\$ 13,020
Current portion of long-term debt	8	115	46,237
Current portion of derivative liabilities	9	-	5,004
Current portion of other liabilities	10	-	5,146
		3,694	69,407
Long-term debt	8	43,682	72
Derivative liabilities	9	5,293	2,494
Other liabilities	10	-	11,166
Restoration and other provisions		2,884	3,947
Total liabilities		55,553	87,086
<b>Shareholders' equity</b>			
Share capital	11	182,446	176,007
Contributed surplus		15,718	15,828
Deficit		(150,012)	(143,668)
Total shareholders' equity		48,152	48,167
Total liabilities and shareholders' equity		\$ 103,705	\$ 135,253

### Approved by the Board of Directors

“Steven Krause” Director

“Greg Smith” Director

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

**Luna Gold Corp.****Condensed Consolidated Statements of Changes in Shareholders' Equity and Deficit**

For the nine months ended September 30, 2015 and 2014 (Unaudited)

(expressed in thousands of U.S. dollars)

	Note	Attributable to equity holders of the Company				
		Shares (000's)	Share capital	Contributed surplus	Deficit	Total
<b>Balance at December 31, 2014</b>		141,478	\$ 176,007	\$ 15,828	\$ (143,668)	\$ 48,167
Net loss for the period		-	-	-	(6,344)	(6,344)
Share-based compensation		-	-	(194)	-	(194)
Restricted share units		-	-	84	-	84
Issue of share capital – private placement	3, 11	124,700	6,064	-	-	6,064
Issue of share capital – interest payment	11	8,379	375	-	-	375
<b>Balance at September 30, 2015</b>		<b>274,557</b>	<b>\$ 182,446</b>	<b>\$ 15,718</b>	<b>\$ (150,012)</b>	<b>\$ 48,152</b>
<b>Balance at December 31, 2013</b>		105,028	\$ 141,171	\$ 14,547	\$ (22,177)	\$ 133,541
Net loss for the period		-	-	-	(102,783)	(102,783)
Share-based compensation		-	-	395	-	395
Restricted share units		-	-	647	-	647
Issue of share capital, net		36,450	34,849	-	-	34,849
<b>Balance at September 30, 2014</b>		<b>141,478</b>	<b>\$ 176,020</b>	<b>\$ 15,589</b>	<b>\$ (124,960)</b>	<b>\$ 66,649</b>

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

# Luna Gold Corp.

## Condensed Consolidated Statements of Cash Flows

For the three and nine months ended September 30, 2015 and 2014 (Unaudited)

(expressed in thousands of U.S. dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2015	2014	2015	2014
<b>Cash flows from operating activities</b>					
Net loss		\$ (237)	\$ (110,351)	\$ (6,344)	\$ (102,783)
Items not affecting cash					
Income tax expense		-	675	-	1,685
Depletion and amortization		711	1,104	3,304	3,644
Recognition of other liabilities		-	(58)	(308)	(166)
Unrealized foreign exchange losses (gains)		2,328	1,080	4,218	(316)
Unrealized (gains) losses from financial assets		(4,787)	592	(8,074)	(3,087)
Share-based compensation		18	8	(110)	281
Finance income		(150)	(174)	(446)	(592)
Finance costs		1,937	572	4,923	1,426
Impairment of property, plant and equipment		-	102,000	-	102,000
Restructuring costs		10	-	1,847	-
Other		(1,423)	2,218	(496)	2,218
		(1,593)	(2,334)	(1,486)	4,310
Change in non-cash operating working capital					
Decrease (increase) in accounts receivable and prepaid expenses		1,053	(1,162)	668	(3,995)
Decrease (increase) in inventory		4,404	(3,131)	18,558	(4,939)
(Decrease) increase in accounts payable		(5,006)	(159)	(10,902)	132
		(1,142)	(6,786)	6,838	(4,492)
<b>Cash flows from investing activities</b>					
Payments for mineral property, plant and equipment		-	(7,839)	(4,098)	(18,208)
Long-term tax credit receivable		313	(582)	(813)	(2,352)
Proceeds from sale of marketable securities and property, plant and equipment		-	238	1,199	1,431
		313	(8,183)	(3,712)	(19,129)
<b>Cash flows from financing activities</b>					
Proceeds from debt, net	8	-	(9)	15,498	9,952
Repayment of debt	8	(41)	(3,149)	(24,227)	(3,445)
Payment of interest on debt		19	(594)	(819)	(1,489)
Transfer from restricted cash		-	-	6,690	-
Proceeds from issuance of common shares, net	11	(131)	18,068	9,685	34,849
Payment of restructuring costs		(10)	-	(1,847)	-
		(163)	14,316	4,980	39,867
<b>(Decrease) increase in cash and cash equivalents</b>		<b>(992)</b>	<b>(653)</b>	<b>8,106</b>	<b>16,246</b>
<b>Cash and cash equivalents - beginning of period</b>		<b>12,447</b>	<b>23,182</b>	<b>3,694</b>	<b>5,984</b>
Effect of exchange rate changes on cash		(775)	(285)	(1,120)	14
<b>Cash and cash equivalents - end of period</b>		<b>\$ 10,680</b>	<b>\$ 22,244</b>	<b>\$ 10,680</b>	<b>\$ 22,244</b>

# Luna Gold Corp.

## Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 (Unaudited)

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

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### 1 Nature of operations and going concern

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

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

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

The Company has ceased mining and processing operations at the Aurizona mine and placed the mine on care and maintenance. With the successful closing of the Pacific Road and Sandstorm Gold transactions (note 3), the Company is using the available proceeds to fund a work program which involves infill and exploration drilling, updating the geological model, calculating a new mineral resource estimate, formulating a new mine plan, producing an updated prefeasibility study and mineral reserve estimate, and continuing the on-going licensing and permitting process to ultimately secure the required permits to restart the Aurizona mine in the last half of 2017.

The Company will require additional capital within the next twelve months to achieve our goal of restarting the Aurizona mine. Although the Company has been successful at raising capital in the past, there can be no assurance that we will be able to do so on terms that are acceptable to the Company, if at all. Accordingly, there are material risks and uncertainties that cast significant doubt about the Company's ability to continue as a going concern. These condensed consolidated financial statements 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 these financial statements, adjustments would be necessary to the carrying values of assets and liabilities, and the reported expenses and the balance sheet classifications used. Such adjustments could be material.

### 2 Basis of presentation and statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting (“IAS 34”). These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and accordingly should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2014. The accounting policies applied in these condensed consolidated financial statements are the same as those applied in the Company’s annual consolidated financial statements.

New critical accounting judgements for the period ended June 30, 2015 include the accounting for the Pacific Road transaction and the Sandstorm Gold transaction discussed in note 3 and significant new estimates includes the determination of the fair value of new debt instruments and warrants issued in the transactions described in note 3 below.

The condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on November 12, 2015.

### 3 Pacific Road and Sandstorm Gold transaction

On June 30, 2015, the Company completed a financing transaction with Pacific Road Resources Fund (“Pacific Road”) and a transaction with Sandstorm Gold Ltd. (“Sandstorm”) to restructure an agreement whereby the Company was obligated to sell 17% of its gold production from the Aurizona Mine to Sandstorm at \$400 per ounce (the “Gold Stream”) and the Sandstorm Debt Facility (the “Sandstorm Stream Restructure”).

(a) Pacific Road transaction:

Pacific Road provided the Company with CA\$20 million in cash in exchange for a CA \$20 million senior secured note bearing interest at a rate of 10% per annum (the “Pacific Road Note”), payable quarterly in cash or shares and 200 million common share purchase warrants, exercisable for a term of 5 years at CA\$0.10 per common share (the “Class B Warrants”). At Pacific Road’s election, the Company may pay the quarterly interest in shares with the number of shares determined based on the amount of interest due divided by the volume weighted average trading price of the Company’s common shares for the 5 trading days immediately prior to the date of the payment. The Class B Warrants contain an embedded foreign currency derivative (note 8) and were recognized as a derivative liability at their fair value of \$6.6 million with the remainder of the proceeds of \$9.5 million allocated to the Pacific Road Note.

Pacific Road also acquired 100 million units in the capital of Luna (“Units”) at a price of CA\$0.10 per Unit in a non-brokered private placement (the “Private Placement”) for proceeds of CA\$10 million. Each Unit consists of one common share and one common share

# Luna Gold Corp.

## Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 (Unaudited)

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

purchase warrant (“Class A Warrants”). The Class A Warrants have an exercise price of CA\$0.125 per common share and are exercisable for a term of 5 years. Sandstorm also participated in the Private Placement by subscribing for 24.7 million Units for proceeds of CA\$2.47 million. The Class A Warrants contain an embedded foreign currency derivative (note 8) and were recognized as a derivative liability at their fair value of \$3.6 million with the remainder of the proceeds of \$6.4 million allocated to the common shares.

The proceeds received by the Company from the issuance of the above instruments was required to be used to repay in full an existing loan facility with a financial institution, to complete infill drilling on the Piaba target of the Aurizona Project and for working capital purposes including (i) updating the mine plan for the Aurizona project; (ii) completing updated engineering studies on the Aurizona Project, and (iii) completing all necessary and appropriate permit applications for the Aurizona Project.

The Company also incurred transaction costs totalling \$1.2 million, of which \$0.5 million was included in the carrying value of the Pacific Road Note, \$0.2 million was included in the carrying value of the common shares and \$0.5 million related to the Class A Warrants and Class B Warrants was expensed. Transaction costs were allocated to each instrument pro-rata based on their assigned values.

### (b) Sandstorm Stream Restructure:

Sandstorm and the Company agreed to restructure the Gold Stream. The Gold Stream was terminated in exchange for the issuance of a \$30 million debenture (the “Sandstorm Debenture”) and two net smelter return royalties (the “Aurizona Project NSR” and the “Greenfields NSR”). The Aurizona Project NSR covers all future production from the Aurizona Project processed through the Aurizona mill. The Aurizona Project NSR requires the Company to pay Sandstorm 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 200,000 hectares of exploration properties held by the Company and requires the Company to pay Sandstorm a royalty of 2% on production from these properties. The Company has the right to purchase one-half of the Greenfields NSR for \$10 million at any time prior to achieving commercial production. If the Company exercises this right, the royalty rate is reduced to 1%.

If the Company abandons the properties subject to the Aurizona Project NSR or Greenfields NSR, Sandstorm has the right to accept an assignment of the properties.

The Sandstorm Debenture bears interest at a rate of 5% per annum and is repayable in three equal annual tranches of \$10 million plus accrued interest beginning June 30, 2018. The Company has the right to repay the principal and interest owing on each repayment date with common shares of the Company. The number of common shares to be issued is determined based on the principal and interest to be paid divided by the higher of CA\$0.10 per share and the 20 day volume weighted average CA\$ trading price of the Company’s common shares (the “Conversion Price”) provided that Sandstorm owns less than 20% of the outstanding common shares of the Company (the “Sandstorm Ownership Limitation”). The Company can choose to postpone the payment of any instalment until a point when the issuance of shares would not exceed the Sandstorm Ownership Limitation. The Company also has the right to convert up to \$5 million of the Sandstorm Debenture quarterly at the Conversion Price subject to the Sandstorm Ownership Limitation.

The Sandstorm Stream Restructure also included amendments of a \$20 million existing debt facility (the “Sandstorm Debt Facility”) to extend the maturity date from June 30, 2017 to June 30, 2021 and to reduce the interest rate from 12% to 5% per annum, payable in cash on the maturity date. In addition, a completion guarantee provided to Sandstorm (note 9(c)) was terminated and Sandstorm is no longer required to pay an amount receivable related to its obligation to fund certain capital expenditures (notes 4).

The Sandstorm Debenture was recognized at its fair value of \$20.7 million based on the future cash flows discounted at a market rate of interest of 15%. The amended Sandstorm Debt Facility was accounted for as a substantial modification resulting in the derecognition of the old instrument with a carrying value of \$23.7 million and the recognition of a new instrument at its fair value of \$13.2 million based on the future cash flows discounted at a market rate of interest of 15%. The fair value of the conversion option was determined to be nominal at June 30, 2015 because the Company is not able to currently exercise the option due to the Sandstorm Ownership Limitation. Royalties will be recognized when they are paid in the future.

# Luna Gold Corp.

## Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 (Unaudited)

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

The net impact of the Sandstorm Stream Restructure resulted in an increase in mineral property, plant and equipment of \$0.8 million on June 30, 2015 as follows:

Fair value of Sandstorm debenture	\$	20,680
Fair value of new Sandstorm Debt Facility		13,219
Write off of Sandstorm Phase I expansion receivable		1,669
De-recognition of old Sandstorm Debt Facility		(23,730)
De-recognition of other liabilities related to Gold Stream		(7,013)
De-recognition of Sandstorm Phase I completion guarantee		(4,066)
	\$	759

Transaction costs of \$0.5 million were expensed.

### 4 Accounts receivable and prepaid expenses

	September 30, 2015	December 31, 2014
Sandstorm Phase 1 expansion receivables	\$ -	\$ 1,689
Value-added and other taxes receivables	4,691	1,623
Prepaid expenses	214	1,096
	\$ 4,905	\$ 4,408

In December 2012, as amended on July 8, 2014, the Company entered into an agreement with Sandstorm whereby Sandstorm agreed to contribute 17% of the required Phase I expansion capital expenditures. As at December 31, 2014, \$1.7 million remained receivable from Sandstorm related to its share of the capital expenditures incurred. Pursuant to the Sandstorm Stream Restructure (note 3), the Sandstorm Phase 1 expansion receivable was forgiven.

### 5 Inventory

	September 30, 2015	December 31, 2014
Ore in stockpiles	\$ -	\$ 7,194
Work in progress	475	1,925
Finished goods	1,985	9,847
Consumable stores	-	7,433
	\$ 2,460	\$ 26,399



## Luna Gold Corp.

### Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 (Unaudited)

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

## 6 Property, plant and equipment

	Plant and equipment	Capital work-in-progress	Mineral properties and mine development costs	Total
Cost at December 31, 2014	\$ 83,167	\$ 66,356	\$ 69,443	\$ 218,966
Additions	615	-	-	615
Sandstorm Stream Restructure	-	-	759	759
Disposals and reclassifications	(3,220)	-	-	(3,220)
Transfers	66,356	(66,356)	-	-
<b>Cost at September 30, 2015</b>	<b>\$ 146,918</b>	<b>\$ -</b>	<b>\$ 70,202</b>	<b>\$ 217,120</b>
Accumulated amortization and impairment at December 31, 2014	(49,982)	(58,955)	(38,467)	(147,404)
Depletion and amortization for the period	(2,307)	-	(428)	(2,735)
Disposals and reclassifications	1,490	-	-	1,490
Transfers	(58,955)	58,955	-	-
<b>Accumulated amortization and impairment at September 30, 2015</b>	<b>\$ (109,754)</b>	<b>\$ -</b>	<b>\$ (38,895)</b>	<b>\$ (148,649)</b>
<b>Net book value as at December 31, 2014</b>	<b>33,185</b>	<b>7,401</b>	<b>30,976</b>	<b>71,562</b>
<b>Net book value as at September 30, 2015</b>	<b>\$ 37,164</b>	<b>\$ -</b>	<b>\$ 31,307</b>	<b>\$ 68,471</b>

## 7 Other assets

	September 30, 2015	December 31, 2014
Value-added and other taxes receivables	\$ 10,407	\$ 14,897
Consumable stores inventory	6,098	-
	\$ 16,505	\$ 14,897
Less: Current portion of value-added tax receivables	(3,910)	(1,623)
	\$ 12,595	\$ 13,274

As the Company has placed the Aurizona mine on care and maintenance, consumable stores inventory has been classified as a long term asset as at September 30, 2015 as the Company does not expect to use this inventory in the next year.

# Luna Gold Corp.

## Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 (Unaudited)

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

### 8 Long-term debt

	Face Value September 30	September 30, 2015	December 31, 2014
Pacific Road Note, net of unamortized issue costs of \$481 (a)	\$ 14,929	\$ 8,503	\$ -
Sandstorm Debt Facility, including accrued interest of \$299 (b)	24,029	13,718	22,255
Sandstorm Debenture, including accrued interest of \$378 (c)	30,378	21,461	-
Corporate Facility (d)	-	-	23,573
Other	115	115	481
Total long-term debt	69,451	43,797	46,309
Less: current portion	(115)	(115)	(46,237)
	\$ 69,336	\$ 43,682	\$ 72

#### a) Pacific Road Note

On June 30, 2015, the Company entered into a CA\$20.0 million senior secured note with Pacific Road. The Pacific Road Note bears interest at a rate of 10% per annum, payable quarterly in arrears in cash or shares at Pacific Road's election and matures on June 30, 2020. If the Company were to be in default of the terms of the Pacific Road Note, the interest rate would increase to 15% per annum. At Pacific Road's election, the Company may pay the quarterly interest in shares with the number of shares determined based on the amount of interest due divided by the volume weighted average trading price of the Company's common shares for the 5 trading days immediately prior to the date of the payment. Pacific Road has the right to reduce the principal amount of the Pacific Road Note outstanding as satisfaction of the exercise proceeds of the Class B Warrants (note 8) when exercised.

The Pacific Road Note is secured by first ranking liens and encumbrances over the Company and its assets.

The Class B Warrants issued in connection with the Pacific Road Note were accounted for as derivatives at fair value (note 8) and the difference of \$9.5 million between the proceeds received from Pacific Road and the fair value of the Class B Warrants was allocated to the Pacific Road Note. Interest on the Pacific Road Note will be recognized at the effective interest rate of 26.05% which amortizes the difference between the carrying value and the principal amount over the term to maturity.

#### b) Sandstorm Debt Facility

In September 2013, the Company 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. During the year ended December 31, 2014, the Company drew down a further \$10.0 million.

The Sandstorm Debt Facility carried an interest rate of 12% per annum, is guaranteed by the Company and its subsidiary Mineracao Aurizona S.A. ("MASA"), and the principal and interest were due and payable on June 30, 2017. The Company provided security for the Sandstorm Debt Facility in the form of a second ranking lien in favour of Sandstorm, subject to a gold pledge agreement, a mineral rights pledge agreement, a machinery and equipment pledge and guarantee by MASA.

As part of the Sandstorm Stream Restructure, Sandstorm amended the terms of the Sandstorm Debt Facility. The maturity date was extended from June 30, 2017 to June 30, 2021, the interest rate was reduced to 5% per annum effective July 1, 2015, payable in cash on the maturity date. In the event of a default, the Company would be subject to a default rate of interest equal to 10% per annum.

The amendments were accounted for as a debt modification and the new instrument was recognized at its fair value of \$13.2 million. Interest on the Sandstorm Debt Facility will be recognized at the effective interest rate of 15% which amortizes the difference between the carrying value and the principal amount over the term to maturity.

#### c) Sandstorm Debenture

As part of the Sandstorm Stream Restructure (note 3), the Company provided Sandstorm with a \$30 million debenture. The Sandstorm Debenture bears interest at a rate of 5% per annum and is repayable in three equal annual tranches of \$10 million plus accrued interest beginning June 30, 2018. The Company has the right to repay the principal and interest owing on each repayment date with common shares of the Company. The number of common shares to be issued is determined based on the principal and interest to be repaid divided by the higher of CA\$0.10 per share and the 20 day volume weighted average CA\$ trading price of the Company's common

# Luna Gold Corp.

## Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 (Unaudited)

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

shares (the “Conversion Price”) provided that Sandstorm owns less than 20% of the outstanding common shares of the Company. The Company can choose to postpone the payment of any instalment until a point when the issuance of shares would not exceed the Sandstorm Ownership Limitation. The Company also has the right to convert up to \$5 million of the Sandstorm Debenture quarterly at the Conversion Price subject to the Sandstorm Ownership Limitation.

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

The Sandstorm Debenture was recognized at its fair value of \$20.7 million. Interest on the Sandstorm Debenture will be recognized at the effective interest rate of 15% which amortizes the difference between the carrying value and the principal amount over the term to maturity.

### d) Corporate Facility

In March 2014, 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 carried an interest rate of LIBOR plus 4.25%. The principal amount of the Corporate Facility was repayable in quarterly instalments of \$3.0 million which commenced on September 30, 2014.

On June 30, 2015, the Corporate Facility was repaid in full with the proceeds from the Pacific Road and Sandstorm Gold transaction (note 3). Upon repayment, deferred finance costs of \$0.4 million were expensed as restructuring costs.

## 9 Derivative liabilities

	September 30, 2015	December 31, 2014
Class A Warrants	\$ 1,849	\$ -
Class B Warrants	3,444	-
Foreign exchange contracts (note 15(a))	-	7,498
	5,293	7,498
Current portion	-	(5,004)
	\$ 5,293	\$ 2,494

As at September 30, 2015, the Company had 124,700,000 Class A Warrants outstanding exercisable at CA\$0.125 per share until June 30, 2020 and 200,000,000 Class B Warrants outstanding exercisable at CA\$0.10 per share until June 30, 2020. These warrants contain a foreign currency embedded derivative as their exercise price is in CA\$ whereas the Company’s functional currency is the USD. The Company elected to recognize the warrants as derivatives at fair value in their entirety with changes in fair value recognized in profit or loss. For the three month ended September 30, 2015, the Company recognized a gain of \$4.7 million related to the change in the fair value of these warrants. The fair value for the warrants was calculated using the Black-Scholes option pricing model with the following assumptions:

	September 30, 2015
Risk-free interest rate	0.84%
Warrant expected life	4.75 years
Expected volatility	62%
Expected dividend	0%

# Luna Gold Corp.

## Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 (Unaudited)

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

### 10 Other liabilities

	September 30, 2015	December 31, 2014
Sandstorm transaction (a)	\$ -	\$ 7,321
Deferred revenue (b)	-	5,013
Sandstorm Phase I completion guarantee (c)	-	3,978
	-	16,312
Current portion	-	(5,146)
	\$ -	\$ 11,166

#### a) Sandstorm transaction

In May 2009, the Company entered into a definitive agreement with 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 was recorded as a reduction of property, plant and equipment. The remaining \$8.3 million was recorded as other liabilities and amortized on a unit of sales basis as a credit to revenues.

Upon termination of the Gold Stream (note 3) on June 30, 2015, the carrying value related to the Sandstorm transaction was de-recognized.

#### b) Deferred revenue

Deferred revenue represents proceeds from the sale of gold received prior to delivery of the gold to the customer. This amount was recognized in revenue in January 2015 at the time the related gold was delivered to the customer.

#### c) Sandstorm Phase I completion guarantee

The Company had entered into an agreement with Sandstorm whereby Sandstorm agreed to contribute 17% of the required Phase I expansion capital expenditures to a maximum of \$10.0 million.

The Company provided a completion guarantee (the "Completion Guarantee") whereby the Company was required to produce in excess of 57,500 ounces of gold over any consecutive six month (as elected by the Company) period by December 15, 2016 and at December 31, 2014 recognized a provision for the expected amount payable to Sandstorm related to the Completion Guarantee as the Company did not expect to achieve the required production volume.

On June 30, 2015, the Completion Guarantee was terminated in connection with the Sandstorm Stream Restructure (note 3).

### 11 Share capital

The Company's authorized share capital consists of unlimited common shares without par value. At September 30, 2015, the Company had 274,577,567 shares issued and outstanding.

On June 30, 2015, the Company issued 124.7 million units of the Company ("Units") at a price of CA\$0.10 per Unit in a non-brokered private placement (the "Private Placement"). Each Unit consisted of one common share and one Class A Warrant. Pacific Road received a fee equal to 2% of the gross proceeds from Pacific Road's subscription to the Private Placement.

The fair value of the Class A Warrants of \$3.6 million was recognized as a derivative liability (note 8) with the remainder of the proceeds, net of transaction costs, of \$6.2 million allocated to the common shares.

On September 30, 2015, the Company issued 8.4 million common shares of the Company to Pacific Road as payment for the quarterly interest charge on the Pacific Road Note (note 7(a)).

# Luna Gold Corp.

## Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 (Unaudited)

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

### 12 Share-based compensation

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

a) Stock options

	<b>September 30, 2015</b>	
	<b>Number of shares (000's)</b>	<b>Weighted average exercise price CAD</b>
Outstanding - beginning of period	7,619	2.29
Granted	2,000	0.11
Forfeited/Expired	(4,467)	2.09
Outstanding - end of period	5,152	1.62

At September 30, 2015, the following stock options were outstanding:

Number of shares (000's)	Vested (000's)	Price per share CAD	Expiry Date
33	33	1.16 – 3.25	Dec 2015
920	920	2.30 – 3.25	Apr – Oct 2016
1,336	1,330	2.10 – 3.55	Mar – Nov 2017
528	387	1.55 – 3.01	Apr – Aug 2018
335	199	1.08 – 1.16	Mar – Jun 2019
2,000	-	0.08 – 0.14	May – Jul 2020
5,152	2,869		

	<b>September 30, 2015</b>
Weighted average exercise price for exercisable options	<b>CAD 2.81</b>
Weighted average share price for options exercised	-
Weighted average years to expiry for exercisable options	<b>2.9 years</b>

The weighted average fair value at date of grant for options granted in the nine months ended September 30, 2015 was \$0.03 (2014 - \$0.44) per option calculated using the Black-Scholes option pricing model with the following assumptions:

	<b>September 30, 2015</b>
Risk-free interest rate	<b>0%</b>
Option expected life	<b>2 years</b>
Expected volatility	<b>62%</b>
Expected dividend	<b>0%</b>

For the three and nine months ended September 30, 2015, the total share-based compensation charges related to options granted to employees and directors was an expense of \$Nil (2014 – expense of \$0.08 million) and a recovery of \$0.1 million (2014 – expense of \$0.3 million), respectively.

## Luna Gold Corp.

### Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 (Unaudited)

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

## 13 Segmented information

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

## 14 Finance cost

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Interest expense	\$ (1,195)	\$ (1,211)	\$ (3,335)	\$ (2,989)
Accreted interest – debt instruments (note 7)	(677)	(135)	(1,312)	(391)
Accreted interest – restoration provision	(65)	(91)	(276)	(271)
	(1,937)	(1,437)	(4,923)	(3,651)
Less: interest capitalized	-	865	-	2,225
	\$ (1,937)	\$ (572)	\$ (4,923)	\$ (1,426)

## 15 Financial instruments

### a) Derivative assets and liabilities

As required by the Corporate Facility, the Company entered into gold forward contracts 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.

All the gold forward and foreign exchange forward contracts were closed and settled during the six month period ended June 30, 2015.

# Luna Gold Corp.

## Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 (Unaudited)

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

### b) Financial instruments gain (loss)

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Unrealized gain (loss) on gold forward contracts	\$ -	\$ 987	\$ (4,277)	\$ (2,078)
Realized gain on gold forward contracts	-	663	4,414	1,637
Unrealized (loss) gain on foreign exchange contracts	-	(1,883)	7,498	3,477
Realized (loss) on foreign exchange contracts	-	(461)	(11,123)	(1,294)
Unrealized gain on gold collar option contracts	-	658	-	415
Realized gain on gold collar option contracts	-	67	-	67
Unrealized (loss) gain on marketable securities	(92)	(305)	(26)	1,506
Realized (loss) gain on marketable securities	-	(50)	26	(234)
Realized gain on warrant liabilities	4,879	-	4,879	-
	\$ 4,787	\$ (324)	\$ 1,391	\$ 3,496

### c) Fair value classification of financial instruments

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices). Level 3 inputs are for the assets or liabilities that are not based on observable market data (unobservable inputs).

As at September 30, 2015, marketable securities and share consideration are measured in the consolidated statement of financial position at fair value using Level 1 inputs and derivatives are measured using Level 2 inputs. For disclosure purposes, the fair value of the notes receivable and long-term debt are determined using Level 2 inputs. The carrying values of cash and cash equivalents, trade receivables, and accounts payable and accrued liabilities approximates their fair value due to their short terms to maturity.

# Luna Gold Corp.

## Notes to Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2015 (Unaudited)

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

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

	September 30, 2015	December 31, 2014
Financial assets:		
Loans and receivables:		
Cash and cash equivalents	\$ 10,681	\$ 3,694
Restricted cash	-	6,690
Sandstorm Phase 1 expansion receivables	-	1,689
Notes receivable (included in other financial assets)	3,618	3,541
Held for trading:		
Marketable securities and share consideration (included in other financial assets)	976	1,408
Derivative asset	-	4,277
Total financial assets	\$ 15,275	\$ 21,299
Financial liabilities:		
Held for trading:		
Derivative liabilities	\$ 5,293	\$ 7,498
Other:		
Accounts payable and accrued liabilities	3,579	13,020
Long-term debt, including current portion	44,278	46,309
Total financial liabilities	\$ 53,150	\$ 66,827

## 16 Contingency

In August 2015, the Company was served notice of a civil claim seeking payment of CA\$1.5 million for transaction services rendered in connection with a restructuring completed by the Company in June 2015. Management has reviewed the claim concluded that the Company expects to successfully defend the action and that a loss contingency is not probable. However, the outcome of the action and amounts payable by the Company, if any, ultimately will be determined in court. Should future developments in this matter cause a change in our assessment, an accrual for a loss contingency may be required and could have a material adverse impact on our results of operations, cash flows and financial position in the period in which the change in determination or settlement occurs.