

Luna Gold Corp.

Interim Consolidated Financial Statements

September 30, 2011 – Third Quarter

(unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

Luna Gold Corp.

Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

	Note	Three months ended September 30		Nine months ended September 30	
		2011	2010	2011	2010
Revenue					
Gold sales	10	\$ 15,910.5	\$ 1,620.3	\$ 35,447.3	\$ 2,449.8
		15,910.5	1,620.3	35,447.3	2,449.8
Operating expenses					
Cost of goods sold		(9,009.2)	(5,576.2)	(28,728.8)	(7,969.6)
Depletion and amortization		(2,012.9)	(303.8)	(4,118.5)	(350.7)
		4,888.4	(4,259.7)	2,600.0	(5,870.5)
Other (expenses) income, net					
Exploration		263.2	(1,334.5)	(3,371.9)	(2,123.4)
General and administrative	11	(1,321.1)	(939.0)	(3,090.7)	(1,994.5)
Gain (loss) on derivative liability	12	(73.8)	472.7	2,291.8	(48.2)
Foreign exchange gain		3,336.2	43.4	3,604.3	397.5
Stock-based compensation	8	(1,049.4)	(428.6)	(2,519.9)	(1,429.2)
Finance income		20.5	147.9	144.8	292.9
Finance cost		(1,999.6)	(475.3)	(3,104.0)	(668.1)
Other expenses		(1,342.0)	(13.0)	(1,334.8)	(13.0)
Net income (loss) and comprehensive income (loss) for the period		\$ 2,722.4	\$ (6,786.1)	\$ (4,780.4)	\$ (11,456.5)
Income (Loss) per common share					
Basic		0.01	(0.02)	(0.01)	(0.03)
Diluted		0.01	(0.02)	(0.01)	(0.03)
Weighted average shares outstanding (000's)					
Basic		441,343	409,955	437,855	376,148
Diluted		442,801	409,955	437,855	376,148
Total shares issued and outstanding (000's)		517,523	418,504	517,523	418,504

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

Luna Gold Corp.
Interim Consolidated Statements of Financial Position

(Unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

	Note	September 30, 2011	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash and cash equivalents		\$ 41,357.4	\$ 10,703.6	\$ 12,565.5
Accounts receivable and prepaid expenses		5,549.2	3,647.9	743.7
Inventory	3	9,046.4	6,325.5	393.6
Investments		-	-	2,942.9
Property, plant and equipment	4	55,953.0	20,677.0	16,645.7
Other assets		95,388.8	88,166.0	54,867.6
		1,316.2	1,089.5	408.1
Total assets		\$ 152,658.0	\$ 109,932.5	\$ 71,921.4
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities		\$ 8,108.2	\$ 3,524.2	\$ 5,364.6
Current portion of derivative liability	12	16.2	1,605.8	-
Current portion of debt instruments	5	6,013.0	8,118.3	301.6
Current portion of other liabilities	6	755.5	1,748.2	1,787.2
Debt instruments	5	14,892.9	14,996.5	7,453.4
Derivative liability	12	25,848.2	9,383.2	4,989.2
Other liabilities	6	3,709.4	1,019.2	-
Asset retirement obligation		9,715.4	19,917.9	20,308.8
		2,153.6	2,370.9	2,108.5
Total liabilities		56,319.5	47,687.7	34,859.9
Shareholders' equity				
Share capital		146,107.4	107,233.3	65,687.7
Deficit		(49,768.9)	(44,988.5)	(28,626.2)
Total shareholders' equity		96,338.5	62,244.8	37,061.5
Total liabilities and shareholders' equity		\$ 152,658.0	\$ 109,932.5	\$ 71,921.4

Subsequent events (note 15)

Approved by the Board of Directors

_____ Director _____ Director

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

Luna Gold Corp.

Interim Consolidated Statements of Changes in Shareholders' Equity and Deficit

(Unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

	Notes	Attributable to equity holders of the Company				
		Shares ('000)	Share capital	Contributed surplus	Deficit	Total
Balance at January 1, 2010		358,837	\$ 60,063.2	\$ 5,624.5	\$ (28,626.2)	\$ 37,061.5
Net loss for the period		-	-	-	(11,456.5)	(11,456.5)
Escrow shares returned to treasury and cancelled		(214)	(35.7)	35.7	-	-
Stock options exercised		951	608.8	(231.9)	-	376.9
Stock-based compensation charges		-	-	1,571.8	-	1,571.8
Issue of share capital, net		58,930	27,689.3	-	-	27,689.3
Balance at September 30, 2010		418,504	\$ 88,325.6	\$ 7,000.1	\$ (40,082.7)	\$ 55,243.0
Balance at January 1, 2010		358,837	\$ 60,063.2	\$ 5,624.5	\$ (28,626.2)	\$ 37,061.5
Net loss for the year		-	-	-	(16,362.3)	(16,362.3)
Escrow shares returned to treasury and cancelled		(214)	(35.7)	35.7	-	-
Stock options exercised		3,267	1,183.2	(405.6)	-	777.6
Stock-based compensation charges		-	-	1,952.9	-	1,952.9
Issue of share capital, net		72,649	38,701.6	113.6	-	38,815.2
Balance at December 31, 2010		434,539	\$ 99,912.3	\$ 7,321.1	\$ (44,988.5)	\$ 62,244.9
Net loss for the period		-	-	-	(4,780.4)	(4,780.4)
Stock options exercised	8	2,475	1,583.6	(596.3)	-	987.3
Stock-based compensation charges	8	-	-	2,519.9	-	2,519.9
Issue of share capital, net	7(a)	80,509	35,366.8	-	-	35,366.8
Balance at September 30, 2011		517,523	\$ 136,862.7	\$ 9,244.7	\$ (49,768.9)	\$ 96,338.5

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

Luna Gold Corp.
Interim Consolidated Statements of Cash Flows

(Unaudited)

(expressed in thousands of U.S. dollars, except where indicated)

	Note	Three months ended September 30		Nine months ended September 30	
		2011	2010	2011	2010
Cash flows from operating activities					
Net income (loss) for the period		\$ 2,722.4	\$ (6,786.1)	\$ (4,780.4)	\$ (11,456.5)
Items not affecting cash					
Depletion and amortization		2,027.3	303.8	4,161.6	359.2
Recognition of other liabilities		(2,248.2)	(38.5)	(2,711.2)	(74.5)
Unrealized foreign exchange (gains) losses		(3,319.6)	(60.8)	(3,508.0)	(392.4)
Unrealized (gains) losses from warrant liability		73.8	(472.7)	(2,291.8)	48.2
Stock-based compensation charges	8	1,049.4	428.6	2,519.9	1,429.2
Accretion of asset retirement obligation		63.1	47.6	198.1	139.5
Accretion of interest		889.5	226.7	1,370.9	226.7
Other		1,146.7	5.1	1,146.7	(10.9)
		2,404.4	(6,346.3)	(3,894.2)	(9,731.5)
Change in non-cash operating working capital					
Increase in accounts receivable and prepaid expense		166.1	(496.5)	(1,901.3)	(564.8)
Increase in inventory		(861.1)	(5,160.7)	(2,077.6)	(8,734.5)
(Increase) decrease in accounts payable and accruals		(1,037.3)	(2,510.6)	5,105.3	(1,840.4)
		672.1	(14,514.1)	(2,767.8)	(20,871.2)
Cash flows from financing activities					
Proceeds from prepaid gold agreement	6(a)	-	-	5,500.0	13,868.8
Payment for settlement of prepaid gold agreement		(3,862.7)		(3,862.7)	
Proceeds from debt	5(d)	30,000.0	-	30,000.0	-
Payment of debt financing fees		(1,034.6)	-	(1,712.7)	-
Repayment to principal of debt financing		(10,000.0)	-	(13,333.3)	-
Proceeds from issuance of special warrants, net		-	(269.2)	-	29,786.0
Proceeds on issuance of common shares		35,854.6	193.5	36,787.5	377.0
		50,957.3	(75.7)	53,378.8	44,031.8
Cash flows from investing activities					
Proceeds from disposal of investments		-	-	-	2,964.2
Payment for mineral properties		(7,812.9)	(608.4)	(12,207.2)	(1,085.6)
Payments for property, plant and equipment		(2,667.2)	(2,603.7)	(7,816.1)	(30,370.1)
		(10,480.1)	(4,297.7)	(20,023.3)	(28,491.5)
Effect of exchange rate changes on cash		(207.4)	30.9	66.1	332.6
Increase (decrease) in cash and cash equivalents		41,149.3	(18,887.5)	30,587.7	(5,330.9)
Cash and cash equivalents - beginning of period		415.5	26,423.8	10,703.6	12,565.5
Cash and cash equivalents - end of period		\$ 41,357.4	\$ 7,567.2	\$ 41,357.4	\$ 7,567.2

Supplemental cash flow information (note 13)

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

Luna Gold Corp.

Notes to Consolidated Financial Statements

For the three months ended September 30, 2011

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

1 Nature of operations

Luna Gold Corp. (the “Company”) is in the business of mining operations, mineral exploration and mine development and is actively engaged in the operation, exploration, acquisition and development of gold properties. The Company currently has two gold properties located in northeast Brazil.

The Company has its primary listing on the Toronto Stock Exchange. The Company’s registered office is at 800 – 543 Granville Street, Vancouver, BC, V6C1X8, Canada.

2 Basis of presentation and first-time adoption of IFRS

The Company prepares its financial statements in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) as set in the Handbook of the Canadian Institute of Chartered Accountant (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these interim consolidated financial statements.

Previously the Company prepared its consolidated annual and interim financial statements in accordance with Canadian GAAP. In the financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the adoption of IFRS.

These interim unaudited consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value. The Company’s IFRS accounting policies were disclosed in Note 3 of the condensed interim consolidated financial statements for the period ended March 31, 2011.

These condensed interim financial statements have also been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1.

The policies applied in these interim consolidated financial statements are based on IFRS issued and outstanding as at May 11, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS, that are given effect in the Company’s annual consolidated financial statements for the year ended December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP annual financial statements for the year ended December 31, 2010 and the interim consolidated financial statements for the period ended March 31, 2011. The disclosure in Note 13 provide IFRS information for the year ended December 31, 2010 that is material to the understanding of these interim consolidated financial statements.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company: IFRS 10, ‘Consolidated Financial Statements’, IFRS 11, ‘Joint Arrangements’, IFRS 12, ‘Disclosure of Interests in Other Entities’, IAS 27, ‘Separate Financial Statements’, IFRS 13, ‘Fair Value Measurement’ and amended IAS 28, ‘Investments in Associates and Joint Ventures’. Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

First-time adoption exemptions applied

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening balance sheet on our transition date of January 1, 2010, and allows certain exemptions on the transition of IFRS. The elections we have chosen to apply and that are considered significant to the Company include:

- Applying IFRIC 1, Changes in Existing Decommissioning, Restoration and Similar Liabilities (“IFRIC 1”) as of the date of transition to IFRS. IFRIC 1 requires specified changes in decommissioning, restoration or similar liabilities to be added to or deducted from the cost of the asset to which it relates and the adjusted depreciable amount of the asset to then be depreciated prospectively over its remaining useful life.
- Applying IFRS 1 to eliminate the cumulative foreign translation balance as of the date of transition to IFRS. This balance would be combined with the deficit balance in shareholders’ equity.

Luna Gold Corp.

Notes to Consolidated Financial Statements

For the three months ended September 30, 2011

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

3 Inventory

	September 30, 2011	December 31, 2010
Ore in stockpiles	\$ 2,217.7	\$ 2,778.8
Work in progress	992.4	472.3
Finished goods	3,823.3	2,150.4
Consumable stores	2,013.0	924.0
	\$ 9,046.4	\$ 6,325.5

4 Property, plant and equipment

	September 30, 2011		
	Cost	Accumulated depletion & amortization	Net
Plant and equipment	\$ 43,768.8	\$ (5,571.6)	\$ 38,197.2
Mineral properties and mine development costs	60,263.9	(3,072.3)	57,191.6
	\$ 104,032.7	\$ (8,643.9)	\$ 95,388.8

	December 31, 2010			January 1, 2010		
	Cost	Accumulated depletion & amortization	Net	Cost	Accumulated depletion & amortization	Net
Plant and equipment	\$ 33,175.7	\$ (2,189.0)	\$ 30,986.7	\$ 28,230.1	\$ (788.5)	\$ 27,441.6
Capital work-in-progress	-	-	-	13,257.6	-	13,257.6
Mineral properties and mine development costs	58,600.0	(1,420.7)	57,179.3	14,168.4	-	14,168.4
	\$ 91,775.7	\$ (3,609.7)	\$ 88,166.0	\$ 55,656.1	\$ (788.5)	\$ 54,867.6

Luna Gold Corp.

Notes to Consolidated Financial Statements

For the three months ended September 30, 2011

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

5 Debt instruments

	Stated value as at Sep 30, 2011	Discount	Financing Cost	Accreted Interest	Amortized Cost Sep 30, 2011	Amortized Cost Dec 31, 2010	Amortized Cost Jan 1, 2010
Aurizona debt facility (a)	\$ -	\$ -	\$(1,511.7)	\$ 1,511.7	\$ -	\$ 12,325.5	\$ -
Accrued future payments to Brascan and Eldorado (b)	3,000.0	(73.8)	-	36.9	2,963.1	5,053.6	4,838.2
Finame equipment purchase financing (c)	2,124.3	-	-	-	2,124.3	-	-
WestLB Senior Secured Term Loan (d)	20,000.0	(1,712.7)	-	74.1	18,361.4	-	-
WestLB Revolving Credit Line (d)	8,412.4	-	-	-	8,412.4	-	-
Departamento Nacional de Producao Mineral (e)	-	-	-	-	-	122.4	452.6
Total long term debt instruments	33,536.7	(1,786.5)	(1,511.7)	1,622.7	31,861.2	17,501.5	5,290.8
Less: Current portion	(6,013.0)	-	-	-	(6,013.0)	(8,118.3)	(301.6)
	27,523.7	(1,786.5)	(1,511.7)	1,622.7	\$ 25,848.2	\$ 9,383.2	\$ 4,989.2

a) Aurizona project debt facility

In January 2010, the Company entered into a \$15,000.0 project debt facility with RMB Resources Inc ("RMB"). As at September 30, 2011, the facility and accrued interest were fully settled.

b) Debt amendment with Brascan Natural Resources S.A. ("Brascan") and Eldorado Gold Corporation ("Eldorado")

On July 20, 2011, the Company entered into an agreement with Brascan and Eldorado to amend the outstanding debt of \$6.0 million of the Company to Brascan and Eldorado. The Company issued promissory notes in the aggregate amount of \$3.0 million, respectively, to each Eldorado and Brascan in connection with the 2006 Purchase Agreement pursuant to which the Company acquired the Aurizona project from Brascan and Eldorado. In satisfaction of the aforementioned promissory notes, Brascan and Eldorado will each receive \$1.5 million in cash on or before December 2, 2011 and 2,417,949 common shares, which were issued on July 25, 2011.

c) Finame equipment purchase financing ("Finame")

On February 15, 2011, the Company entered a debt financing for equipment purchase with Finame for a balance of \$4.0 million Brazilian Reais ("BRL"). Interest is calculated at 5.5% per annum and are repayable in equal monthly instalments 74.0 BRL (\$39.9) beginning September 15, 2011 and ending February 15, 2016.

d) Senior secured credit facility with WestLB AG ("WestLB")

On July 26, 2011, the Company closed a senior secured credit facility with WestLB. This facility is comprised of a \$20.0 million senior secured term loan (the "Term Loan") and a 15.6 million BRL senior secured revolving loan (the "Revolving Facility"). The Term Loan is a 5 year loan with semi-annual instalments commencing on July 1, 2012 and will bear interest at LIBOR plus 3.625%. The Term Loan also has a cash sweep provision, which has no material impact to the Company's cash position or financial statements as at September 30, 2011. The Revolving Facility will be denominated in Brazilian Reais, matures on July 1, 2014 and will bear interest at CDI plus 3.25%. Any outstanding commitments under the Revolving Facility shall be repaid in full on the final maturity date.

e) Departamento Nacional de Producao Mineral ("DNMP")

In August 2006, an agreement was reached with the DNPM to pay 2.6 million BRL (\$1.2 million) in mineral fees owing on exploration licences which have since expired. Under the terms of the agreement the fees are to be paid in 59 monthly instalments and will be adjusted monthly for inflation. The monthly payments include the principal payment plus simple interest of 1% per month. This was settled in full as at September 30, 2011.

Luna Gold Corp.

Notes to Consolidated Financial Statements

For the three months ended September 30, 2011

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

f) Contractual obligation outstanding

As at September 30, 2011, the Company had the following contractual obligations outstanding:

	Total	Less than 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	Thereafter
Long term debt	33,536.7	6,279.3	5,379.3	6,079.3	14,491.8	1,307.0	-
Accounts payables	8,108.2	8,108.2	-	-	-	-	-
Asset retirement obligation	5,895.1	-	-	-	-	-	5,895.1

For nine months ended September 30, 2011, the Company incurred a total of \$1370.9 (2010 - \$708.1) accreted interest.

6 Other liabilities

	September 30, 2011	December 31, 2010
Opening balance	\$ 21,666.1	\$ 22,096.0
RMB unearned revenue (a)	5,500.0	-
RMB revenue recognized (a)	(2,248.2)	-
RMB unearned revenue reversal from settlement (a)	(3,251.8)	-
Reclassification to mineral property (b)	(10,543.3)	-
Cost of production recovery from other liabilities (b)	(188.9)	-
Revenue recognized from other liabilities	(463.0)	(429.9)
Total other liabilities	10,470.9	21,666.1
Less: current portion	(755.5)	(1,748.2)
	\$ 9,715.4	\$ 19,917.9

a) RMB Resources Inc. ("RMB") \$5.5 million prepaid gold agreement

On May 25, 2011, the Company entered into a \$5.5 million prepaid gold agreement with RMB. In exchange for the upfront cash received by the Company, the Company will deliver a total of 3,880 ounces of gold to RMB. 1,586 ounces of gold were delivered to RMB by the end of August 2011. \$2.2 million unearned revenue from this agreement was recognized as a result. The remaining contract was settled in cash as part of the condition for withdrawing the West LB debt.

b) Reclassification of other liabilities to mineral properties

During the quarter ended September 30, 2011, the Company revisited its accounting for the funds received from Sandstorm upon the Aurizona mine attaining a minimum production commitment. As a result, Sandstorm may no longer require the Company to repay any portion of the original deposit and accordingly management has transferred \$10.5 million representing Sandstorm's share of the Aurizona mine capital costs against property, plant and equipment in the period. The remaining balance of the original deposit from Sandstorm of \$11.6 million will be amortized against production cost over the life of the mine.

7 Share capital

a) Public offering & South American private placement

On September 29, 2011, the Company completed its marketed public offering of units ("Units") and sold 51,923,077 Units and a private placement to investors in South America and sold 23,749,338 Units at a price of C\$0.52 per Unit for gross proceeds of C\$27.0 million and C\$12.4 million respectively. Each Unit consists of one common share of the Company plus one half of one common share purchase warrant (each whole warrant, a "Warrant"), with each Warrant being exercisable to acquire one common share at a price of C\$0.70 until September 29, 2013. Total share issuance cost was \$2.3 million.

Luna Gold Corp.

Notes to Consolidated Financial Statements

For the three months ended September 30, 2011

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

b) Share purchase warrants

A summary of the Company's warrants:

Number of warrants (‘000s)	Price per share CA\$	Expiry Date
6,859	1.00	20-Jun-12
37,836	0.70	29-Sep-13
44,695		

8 Stock based compensation

The Company has established a share purchase option plan (the “Plan”) whereby the Board of Directors may, from time to time, grant options to directors, officers, employees, consultants or management company employees. Options granted must be exercised not later than five years from the date of grant or such lesser or greater period as may be determined by the Company's Board of Directors and in accordance with the policies of the Toronto Venture Exchange (“TSX-V”). The exercise price of an option must be determined by the Board of Directors and in accordance with the Plan and the policies of the TSX-V. Subject to the policies of the TSX-V, the Board of Directors may determine the time during which options shall vest and the method of vesting, or that no vesting restriction shall exist.

	September 30, 2011		December 31, 2010	
	Number of shares (‘000’s)	Weighted average exercise price CA	Number of shares (‘000’s)	Weighted average exercise price CA
Outstanding - beginning of period	18,585	0.49	14,759	0.39
Granted	12,525	0.61	9,020	0.58
Exercised	(2,475)	0.39	(3,266)	0.24
Forfeit/Expired	(3,470)	0.60	(1,928)	0.55
Outstanding - end of period	25,165	0.55	18,585	0.49

At September 30, 2011, the following stock options were outstanding:

Number of shares (‘000s)	Number of shares vested (‘000s)	Price per share CA\$	Expiry Date
100	100	0.50	14-Mar-12
205	205	0.85	8-Aug-12
210	210	1.23	16-Jan-13
165	165	1.05	2-May-13
250	250	0.90	20-Jun-13
700	700	0.90	19-Sep-13
5,100	5,100	0.42	24-Jul-14
750	750	0.37	29-Jul-14
100	100	0.55	4-Jan-15
810	540	0.63	5-Jul-15
5,000	1,500	0.58	24-Sep-15
6,325	-	0.65	12-Apr-16
2,850	-	0.55	18-May-16
2,600	-	0.59	9-Aug-16
25,165	9,620		

Luna Gold Corp.

Notes to Consolidated Financial Statements

For the three months ended September 30, 2011

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

The weighted average exercise price for exercisable options was CA\$0.55 (December 31, 2010 - \$0.50).

For nine months ended September 30, 2011, the total stock-based compensation charges related to non-vested options granted to employees was \$2,496.0 (2010 - \$1,260.6). Options granted to non-employees are valued and expensed as they vest. Stock-based compensation charges recognized during the year for non-employees was \$23.9 (2010 - \$168.6).

The weighted average grant value per option was \$0.37.

The following weighted average assumptions were used in the Black-Scholes option pricing model to calculate compensation expense:

	September 30, 2011	September 30, 2010
Risk-free interest rate	2.24%	2.32%
Option expected life	5 years	4 years
Expected volatility	79%	75%
Expected dividend	0.00%	0.00%

9 Segmented information

The Company's reportable operating segments are individual mine operations, mine development projects or exploration properties, being Aurizona, Cachoeira and Corporate. Each operation, project or exploration property is managed and reports information separately to the CODM.

The corporate segment is responsible for the evaluation and acquisition of new mineral properties, regulatory reporting, treasury and finance and corporate administration.

The Company has an agreement to incur exploration expenditures of 9.5 million BRL on the Cachoeira project by December 31, 2011. This exploration expense commitment has been fulfilled as at September 30, 2011.

For the three months ended September 30, 2011, segmented information is presented as follows:

	Aurizona	Cachoeira	Corporate	Total
Revenue	15,910.5	-	-	15,910.5
Operating expenses	(11,022.1)	-	-	(11,022.1)
	4,888.4	-	-	4,888.4
Exploration recoveries (expense)	1,161.8	(898.6)	-	263.2
Other expenses	2,541.0	331.0	(5,301.2)	(2,429.2)
Segmented loss	8,591.2	(567.6)	(5,301.2)	2,722.4
Property, plant and equipment	94,914.9	473.9	-	95,388.8
Total assets	124,916.6	543.9	27,197.5	152,658.0
Capital expenditures	10,480.1	-	-	10,480.1

Luna Gold Corp.

Notes to Consolidated Financial Statements

For the three months ended September 30, 2011

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

For the three months ended September 30, 2010, segmented information is presented as follows:

	Aurizona	Cachoeira	Corporate	Total
Revenue	1,620.3	-	-	1,620.3
Operating expenses	(5,880.0)	-	-	(5,880.0)
	(4,259.7)	-	-	(4,259.7)
Exploration expenses	(553.8)	(780.7)	-	(1,334.5)
Other expenses	(775.0)	-	(416.9)	(1,191.9)
Segmented loss	(5,588.5)	(780.7)	(416.9)	(6,786.1)
Property, plant and equipment	85,593.6	516.1	-	86,109.7
Total assets	101,410.1	617.7	2,085.8	104,113.6
Capital expenditures	4,297.7	-	-	4,297.7

For the nine months ended September 30, 2011, segmented information is presented as follows:

	Aurizona	Cachoeira	Corporate	Total
Revenue	35,447.3	-	-	35,447.3
Operating expenses	(32,847.3)	-	-	(32,847.3)
	2,600.0	-	-	2,600.0
Exploration expenses	(999.0)	(2,372.9)	-	(3,371.9)
Other expenses	885.1	331.0	(5,224.6)	(4,008.5)
Segmented loss	2,486.1	(2,041.9)	(5,224.6)	(4,780.4)
Property, plant and equipment	94,914.9	473.9	-	95,388.8
Total assets	124,916.6	543.9	27,197.5	152,658.0
Capital expenditures	20,022.7	0.6	-	20,023.3

For the nine months ended September 30, 2010, segmented information is presented as follows:

	Aurizona	Cachoeira	Corporate	Total
Revenue	2,449.8	-	-	2,449.8
Operating expenses	(8,320.3)	-	-	(8,320.3)
	(5,870.5)	-	-	(5,870.5)
Exploration expenses	(701.6)	(1,421.8)	-	(2,123.4)
Other expenses	(503.1)	-	(2,959.5)	(3,462.6)
Segmented loss	(7,075.2)	(1,421.8)	(2,959.5)	(11,456.5)
Property, plant and equipment	85,593.6	516.1	-	86,109.7
Total assets	101,410.1	617.7	2,085.8	104,113.6
Capital expenditures	31,455.7	-	-	31,455.7

Luna Gold Corp.

Notes to Consolidated Financial Statements

For the three months ended September 30, 2011

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

10 Revenue

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Gold sales	\$ 13,662.4	\$ 1,463.8	\$ 31,711.1	\$ 2,176.8
Gold sales – Sandstorm				
Cash payments as per contract	-	102.9	1,025.1	153.2
Unearned revenue recognized	-	53.6	463.0	119.8
Gold sales – RMB prepaid gold agreement	2,248.1	-	2,248.1	-
	\$ 15,910.5	\$ 1,620.3	\$ 35,447.3	\$ 2,449.8

Sales to Sandstorm and Auramet Trading LLC represented 4% and 89% of total revenue respectively.

11 General and administrative expense

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Office and administration	\$ (597.0)	\$ (265.9)	\$ (1,205.5)	\$ (758.9)
Salary and wages	(482.8)	(520.3)	(1,195.3)	(915.6)
Professional fees	(83.0)	(75.4)	(311.1)	(158.6)
Travel	(158.3)	(77.4)	(378.8)	(161.4)
	\$ (1,321.1)	\$ (939.0)	\$ (3,090.7)	\$ (1,994.5)

12 Financial instruments

	September 30, 2011	December 31, 2010
Derivative liability		
Warrants	\$ 3,449.5	\$ 2,625.0
Forward foreign exchange contract (a)	75.9	-
Forward interest rate contract (b)	200.2	-
Total derivative liabilities	3,725.6	2,625.0
Less: current portion	(16.2)	(1,605.8)
	\$ 3,709.4	\$ 1,019.2

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Unrealized gain (loss) on warrant liability	\$ 202.3	\$ 472.7	\$ 2,567.9	\$ (48.2)
Unrealized loss on foreign exchange contract	(75.9)	-	(75.9)	-
Unrealized loss on interest rate contract	(200.2)	-	(200.2)	-
	\$ (73.8)	\$ 472.7	\$ 2,291.8	\$ (48.2)

Luna Gold Corp.

Notes to Consolidated Financial Statements

For the three months ended September 30, 2011

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

As at September 30, 2011, the Company entered into the following derivative contracts for foreign exchange and interest rate as required under the terms of the WestLB Facility:

The following provides a comparison of carrying and fair values of each classification of financial instrument as at September 30, 2011:

	Loans and receivables	Held for trading	Other financial liabilities	Total carrying amount	Total fair value
Financial assets					
Cash and cash equivalents	\$ 41,357.4	\$ -	\$ -	\$ 41,357.4	\$ 41,357.4
Accounts receivable	5,549.2	-	-	5,549.2	5,549.2
Financial liabilities					
Accounts payable and accrued liabilities	-	-	8,108.2	8,108.2	8,108.2
Derivative liability	-	3,725.6	-	3,725.6	3,725.6
Long-term debt	-	-	31,861.2	31,861.2	31,861.2

The following provides a comparison of carrying and fair values of each classification of financial instrument as at December 31, 2010:

	Loans and receivables	Held for trading	Other financial liabilities	Total carrying amount	Total fair value
Financial assets					
Cash and cash equivalents	\$ 10,703.6	\$ -	\$ -	\$ 10,730.6	\$ 10,730.6
Accounts receivable	3,647.9	-	-	3,647.9	3,647.9
Financial liabilities					
Accounts payable and accrued liabilities	-	-	3,524.2	3,524.2	3,524.2
Derivative liability	-	2,625.0	-	2,625.0	2,625.0
Long-term debt	-	-	17,501.5	17,501.5	17,781.7

Cash and cash equivalents comprised of \$41,044.6 of cash on hand (December 31, 2010 - \$5,182.4) and \$312.8 of short term investments (December 31, 2010 - \$5,521.2).

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).

As at September 30, 2011, held for trading financial instrument used Level 2 inputs for valuation.

a) BRL / USD Forward Contracts

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

Expiry Date	Notional Amount (USD)	BRL / USD Price
December 16, 2013	\$6,000.0	1.86725
June 16, 2014	\$6,000.0	1.92986
December 15, 2014	\$6,000.0	1.99265
June 15, 2015	\$6,000.0	2.04843
December 15, 2015	\$6,000.0	2.11206
June 15, 2016	\$6,000.0	2.16633

b) Floating to Fixed Interest Rate Swap Contracts

The Company pays a fixed annual interest rate of 1.495% and receives 6 month US Libor rate as follows:

Luna Gold Corp.

Notes to Consolidated Financial Statements

For the three months ended September 30, 2011

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

Start Date	End Date	Notional Amount (USD)
January 25, 2012	July 25, 2012	\$20,000.0
July 25, 2012	January 25, 2013	\$12,304.0
January 25, 2013	July 25, 2013	\$12,304.0
July 25, 2013	January 27, 2014	\$ 4,235.7
January 27, 2014	July 25, 2014	\$ 4,235.7

13 Supplemental cash flow information

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Interest paid	\$ 1,046.9	\$ 308.0	\$ 1,535.0	\$ 855.8
Taxes paid	-	-	-	-
Significant non-cash transactions:				
Accrued amount for property, plant and equipment	150.0	-	150.0	-
Interest capitalized	-	-	-	843.8
Depreciation capitalized	-	-	-	326.7
Stock-based compensation capitalized	-	-	-	142.6

14 First time adoption of IFRS

The Company has adopted IFRS on January 1, 2011 with a transition date of January 1, 2010. Presented below is a reconciliation to IFRS of assets, liabilities, equity, and net loss of the Company from those previously reported under Canadian GAAP. There are no material differences between the cash flow statements presented under IFRS and Canadian GAAP.

		December 31, 2010	September 30, 2010	January 1, 2010
Total assets under Canadian GAAP		\$ 110,483.9	\$ 104,653.9	\$ 71,921.4
Adjustment – Asset retirement obligation	(i)	(551.4)	(540.3)	-
Total assets under IFRS		\$ 109,932.5	\$ 104,113.6	\$ 71,921.4
Total liabilities under Canadian GAAP		\$ 45,614.0	\$ 47,358.0	\$ 34,859.9
Adjustment – Asset retirement obligation	(i)	(551.4)	(540.3)	-
Adjustment – Derivative liability	(ii)	2,625.1	2,052.9	-
Total liabilities under IFRS		\$ 47,687.7	\$ 48,870.6	\$ 34,859.9
Total equity under Canadian GAAP		\$ 64,869.9	\$ 57,295.9	\$ 37,061.5
Adjustment – Derivative liability	(ii)	(2,625.1)	(2,052.9)	-
Total equity under IFRS		\$ 62,244.8	\$ 55,243.0	\$ 37,061.5

Luna Gold Corp.

Notes to Consolidated Financial Statements

For the three months ended September 30, 2011

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

		September 30, 2010 (Three months ended)	September 30, 2010 (Nine months ended)
Total net loss under Canadian GAAP		\$ (7,493.7)	\$ (11,715.8)
Adjustment – Stock-based compensation charges	(iii)	195.5	215.5
Adjustment – Derivative liability revaluation	(ii)	512.1	43.8
Total net loss under IFRS		\$ (6,786.1)	\$ (11,456.5)

(i) Asset retirement obligation

Under Canadian GAAP, ARO is discounted based on the credit adjusted risk free rate. Under IFRS, ARO is discounted based on current risk free discount rate. Accordingly, the Company recorded an adjustment to decrease the ARO asset and liability by \$551.4 as at December 31, 2010 and \$540.3 as at September 30, 2010. No IFRS adjustment was made in January 1, 2010 as there was no material differences between the rates used to discount the liability.

IFRS 1 provides the option to measure the restoration provision at the Transition Date in accordance with the requirements of IAS 37. Accordingly the Company re-measured the provisions as at Transition Date under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date which the liability first arose. The Company did this using best estimates of the historical rate-adjusted discount rates, and recalculated the accumulated amortization and depletion under IFRS up to the transition date.

(ii) Derivative liability

Under Canadian GAAP, warrants are accounted for at their carrying value within shareholders' equity. Under IFRS, warrants that have an exercise price denominated in a currency other than the Company's functional currency meet the definition of a derivative liability and are recorded as a financial liability and are marked-to-market each period. The warrants issued in June 2010 and December 2010 private placement have an exercise price denominated in Canadian dollars, which is not the Company's functional currency. As a result, the warrants do not meet the definition of an equity instrument and will be recorded at fair value as a derivative liability, with the difference between the fair value and the carrying value, upon transition, being recognized in equity. Subsequent changes in the fair value of the warrants will be recognized as gains or losses in the Statement of Income (Loss) and Comprehensive Income (Loss) until they are fully exercised.

As at December 31, 2010, the Company recorded a reclassification adjustment to increase the warrant liability by \$2,625.1 and to decrease the contributed surplus by \$2,625.1. In addition, for the year ended December 31, 2010, the Company recorded a warrant revaluation loss of \$873.5 resulting from the mark-to-market impact of this derivative liability.

As at September 30, 2010, the Company recorded a reclassification adjustment to increase the warrant liability by \$2,052.9 and to decrease the contributed surplus by \$2,052.9. In addition, for the nine months ended September 30, 2010, the Company recorded a warrant revaluation gain of \$43.8 resulting from the mark-to-market impact of this derivative liability.

No adjustments were posted for Statement of Financial Position as at January 1, 2010 as there were no warrants outstanding.

(iii) Stock-based compensation charges

Under Canadian GAAP, share-based compensation expenses can be calculated based on straight line method or graded method. Under IFRS, only the graded method is permitted. As the Company historically calculated stock based compensation charges using the straight line method, the Company adopted the graded method upon the IFRS transition. The quantitative differences between the methods were recognized in Stock-based compensation charges on the Statement of Income (Loss) and Comprehensive Income (Loss) and in Contributed Surplus within the Statement of Changes in Shareholders' Equity and Deficit.

Upon transition on January 1, 2010, a reclassification adjustment was recorded to decrease deficit and to increase share capital by \$389.3. For comparative purpose, for the nine months ended September 30, 2010, the Company also recorded an adjustment to decrease stock-based compensation charges by \$215.5.

15 Subsequent event

Public offering agents exercising the over-allotment option to acquire additional units

In connection with the Company's closed marketed public offering (see note 7(a)) of units, the agents have exercised the over-allotment option to acquire an additional 5,028,152 Units at C\$0.52 per unit, and 250,000 warrants at C\$0.06 per warrant for total gross proceeds of C\$2.6 million. This brings the total proceeds raised to C\$41.9 million from both the public offering and the South American private placement.