

**LARGO RESOURCES LTD.**  
(A Development Stage Company)

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 AND 2009**

(Stated in Canadian Dollars)

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**(A Development Stage Company)**

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McGovern, Hurley, Cunningham, LLP  
Chartered Accountants

INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Largo Resources Ltd. (A Development Stage Company)

We have audited the accompanying consolidated financial statements of Largo Resources Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and 2009, and the consolidated statements of shareholders' equity, consolidated statements of operations, comprehensive loss and deficit, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Largo Resources Ltd. and its subsidiaries as at December 31, 2010 and 2009, and their financial performance and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

McGOVERN, HURLEY, CUNNINGHAM, LLP

Chartered Accountants  
Licensed Public Accountants

TORONTO, Canada  
April 21, 2011

# LARGO RESOURCES LTD.

(A Development Stage Company)

## CONSOLIDATED BALANCE SHEETS

(Stated in Canadian dollars)

As at:

	December 31, 2010	December 31, 2009
	\$	\$
<b>ASSETS</b>		
Current		
Cash	1,366,525	908,438
Amounts receivable (Note 13)	342,745	38,849
Prepaid expenses	141,446	76,131
	<u>1,850,716</u>	<u>1,023,418</u>
Non-current assets		
Long-term prepaid expenses	357,411	-
Equipment (Note 5)	78,186	73,041
Interest in mineral properties (Note 6)	62,836,872	45,395,622
Future income tax (Note 12)	-	398,000
	<u>65,123,185</u>	<u>46,890,081</u>
<b>LIABILITIES</b>		
Current		
Accounts payable and accrued liabilities (Notes 6 and 13)	1,673,730	1,333,740
Long-Term		
Long-term debt (Note 7)	606,706	-
Future income tax liability (Note 12)	16,520,000	11,216,000
	<u>18,800,436</u>	<u>12,549,740</u>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 8)	58,996,828	46,446,354
Warrants (Note 10)	1,787,161	705,350
Contributed surplus (Note 11)	12,243,411	10,482,285
Deficit	(26,704,651)	(23,293,648)
	<u>46,322,749</u>	<u>34,340,341</u>
	<u>65,123,185</u>	<u>46,890,081</u>

Commitments and contingencies (Notes 1, 6, 7 and 14)  
Subsequent events (Note 15)

APPROVED ON BEHALF OF THE BOARD

Signed "MARK BRENNAN", Director

Signed "STAN BHARTI", Director

See accompanying notes to the consolidated financial statements.

# LARGO RESOURCES LTD.

(A Development Stage Company)

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31,

(Stated in Canadian dollars)

	Common Shares		Special Warrants	Warrants	Contributed Surplus	Accumulated Deficit	Shareholders' Equity
	No.	\$	\$	\$	\$	\$	\$
<b>Balance, December 31, 2008</b>	<b>148,899,675</b>	<b>42,541,003</b>	-	<b>1,158,870</b>	<b>9,308,215</b>	<b>(22,453,584)</b>	<b>30,554,504</b>
Private Placement net of issue costs	65,829,154	5,232,004	-	-	-	-	5,232,004
Broker warrants issued	-	(54,306)	-	54,306	-	-	-
Warrant valuation	-	(344,174)	-	344,174	-	-	-
Shares issued for debt	4,061,956	243,827	-	-	-	-	243,827
Flow-through tax effect	-	(1,172,000)	-	-	-	-	(1,172,000)
Stock-based compensation	-	-	-	-	322,070	-	322,070
Expiry of warrants	-	-	-	(852,000)	852,000	-	-
Loss for the year	-	-	-	-	-	(840,064)	(840,064)
<b>Balance, December 31, 2009</b>	<b>218,790,785</b>	<b>46,446,354</b>	-	<b>705,350</b>	<b>10,482,285</b>	<b>(23,293,648)</b>	<b>34,340,341</b>
Private placement, net of issue costs	29,397,055	4,559,002	7,361,499	-	-	-	11,920,501
Warrant valuation	-	(587,941)	-	587,941	-	-	-
Exercise of special warrants	36,363,637	7,361,499	(7,361,499)	-	-	-	-
Exercise of special warrants - value reallocation	-	(909,091)	-	909,091	-	-	-
Broker warrants issued	-	(160,746)	-	160,746	-	-	-
Warrants issued for short-term loan	-	-	-	35,000	-	-	35,000
Flow-through tax effect	-	(398,000)	-	-	-	-	(398,000)
Stock-based compensation	-	-	-	-	1,533,500	-	1,533,500
Exercise of warrants	12,774,236	2,287,410	-	-	-	-	2,287,410
Exercise of warrants - value reallocation	-	372,106	-	(372,106)	-	-	-
Expiry of warrants	-	-	-	(238,861)	238,861	-	-
Exercise of options	150,000	15,000	-	-	-	-	15,000
Exercise of options - value reallocation	-	11,235	-	-	(11,235)	-	-
Loss for the year	-	-	-	-	-	(3,411,003)	(3,411,003)
<b>Balance, December 31, 2010</b>	<b>297,475,713</b>	<b>58,996,828</b>	-	<b>1,787,161</b>	<b>12,243,411</b>	<b>(26,704,651)</b>	<b>46,322,749</b>

See accompanying notes to the consolidated financial statements.

# LARGO RESOURCES LTD.

(A Development Stage Company)

## CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT

For the years ended December 31,

(Stated in Canadian dollars)

	2010 \$	2009 \$
<b>Expenses</b>		
Consulting and professional fees (Notes 9 and 13)	1,781,611	873,886
Shareholder communications and filing fees	362,475	156,759
General office expenses	161,101	152,875
Travel expenses	142,913	105,488
Foreign exchanges gains	(43,701)	(129,162)
Finance costs (Note 13)	57,500	-
Amortization	2,393	4,399
	<u>2,464,292</u>	<u>1,164,245</u>
<b>Loss before the undernoted</b>	<b>2,464,292</b>	<b>1,164,245</b>
Interest and dividend income	(133)	(105)
Interest expense	41,390	20,080
Write-down of mineral property	-	53,844
	<u>2,505,549</u>	<u>1,238,064</u>
Loss for the period before income taxes	2,505,549	1,238,064
Future income taxes (recovery) (Note 12)	905,454	(398,000)
	<u>3,411,003</u>	<u>840,064</u>
<b>Net loss and comprehensive loss for the year</b>	<b>3,411,003</b>	<b>840,064</b>
<b>Deficit - beginning of the year</b>	<b>23,293,648</b>	<b>22,453,584</b>
<b>Deficit - end of the year</b>	<b>26,704,651</b>	<b>23,293,648</b>
<hr/>		
Basic and diluted loss per share	(0.01)	(0.00)
Weighted average number of common shares outstanding		
- basic and diluted	255,065,472	198,246,307

See accompanying notes to the consolidated financial statements.

# LARGO RESOURCES LTD.

(A Development Stage Company)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31,

(Stated in Canadian dollars)

	2010 \$	2009 \$
<b>CASH (USED IN) PROVIDED BY</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	(3,411,003)	(840,064)
Adjustment for non-cash items		
Amortization	2,393	4,399
Stock-based compensation (Note 9)	778,700	230,318
Warrants issued for short-term loan	35,000	-
Write-down of mineral property	-	53,844
Future tax expense (recovery)	905,454	(398,000)
	<u>(1,689,456)</u>	<u>(949,503)</u>
Net change for non-cash working capital	<u>310,655</u>	<u>17,894</u>
	<u>(1,378,801)</u>	<u>(931,609)</u>
<b>FINANCING ACTIVITIES</b>		
Long-term debt	606,706	-
Short-term loans	750,000	(140,000)
Repayment of short-term loans	(750,000)	-
Proceeds from special warrants issued	8,000,000	-
Costs incurred in issuance of special warrants	(638,502)	-
Issued common shares	4,997,500	5,381,247
Costs incurred in issuance of common shares	(438,497)	(149,244)
Exercise of warrants	2,040,334	-
Exercise of options	15,000	-
	<u>14,582,541</u>	<u>5,092,003</u>
<b>INVESTING ACTIVITIES</b>		
Change in accounts payable attributable to property exploration	92,800	(1,567,856)
Government assistance received	158,963	88,741
Deposits on equipment	(357,411)	-
Purchase of equipment	(18,873)	-
Interest in mineral properties	(12,621,132)	(2,496,776)
	<u>(12,745,653)</u>	<u>(3,975,891)</u>
<b>CHANGE IN CASH</b>	<b>458,087</b>	<b>184,503</b>
CASH, beginning of the year	<u>908,438</u>	<u>723,935</u>
CASH, end of the year	<u><u>1,366,525</u></u>	<u><u>908,438</u></u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest earned	(133)	(105)
Interest paid	18,700	-
Stock-based compensation included in mineral property costs (Note 8)	754,800	91,753
Amortization of equipment included in interest in mineral properties	11,335	20,248
Broker warrants issued	160,746	54,306
Common shares issued for debt (Note 8(h))	-	243,827
Proceeds receivable from the exercise of warrants	247,076	-

See accompanying notes to the consolidated financial statements.

# LARGO RESOURCES LTD.

(A Development Stage Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Stated in Canadian Dollars)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Largo Resources Ltd. (the "Company") is a development stage company as defined by the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 11, and currently has interests in mineral properties in Brazil and Canada. Substantially all of the Company's efforts are devoted to financing and developing these properties. There has been no determination whether the Company's interests in mineral properties in Brazil and Canada contain mineral reserves which are economically recoverable.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current exploration and development programs will result in profitable mining operations. The recoverability of the carrying value of exploration and development properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, currency exchange fluctuations and restriction and political uncertainty.

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operation. It is not possible to predict whether financing efforts will be successful or if the Company will attain profitable levels of operations. See note 15(b).

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

### 2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), on a basis consistent with the previous period except where outlined below, and which include the following significant accounting policies:

#### (a) Principles of consolidation

The consolidated financial statements include the amounts of the Company, its wholly owned Brazilian subsidiary companies, Largo Mineracao Ltda. and Mineracao Currais Novos Ltda., its wholly owned Ecuadorian subsidiary company, Compania Minera Minchoa S.A., its wholly owned Canadian subsidiary company, Largo Resources (Yukon) Ltd., and its 80% interest in Companhia de Maracas S.A. ("Companhia Maracas"). All significant intercompany transactions and balances have been eliminated on consolidation.

# LARGO RESOURCES LTD.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Stated in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (b) Variable interest entities

Pursuant to CICA Accounting Guideline 15, the Company is required to consolidate variable interest entities ("VIE"), where it is the VIE's primary beneficiary. VIEs are entities in which equity investments do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The primary beneficiary is the party that has exposure to a majority of the expected losses and/or expected residual returns of the VIE. As at December 31, 2009, the Company had concluded that Companhia Maracas qualified as a VIE and that the Company was the primary beneficiary. Accordingly, the Company included Companhia Maracas in its consolidation for the year ended December 31, 2009. During 2010, the Company increased its interest in Companhia Maracas to 80% and has consolidated it for the year ended December 31, 2010 pursuant to CICA Handbook Section 1590, Subsidiaries.

#### (c) Translation of Foreign Currencies and Foreign Subsidiaries

The functional and reporting currency of the Company is the Canadian dollar. Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Monetary balance sheet items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in operations.

The Company's integrated foreign subsidiaries are financially or operationally dependent on the Company. The Company uses the temporal method to translate the accounts of its integrated operations into Canadian dollars. Monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related asset. The resulting exchange gains or losses are recognized in operations.

#### (d) Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions affect the carrying value of assets, impact decisions as to when interests in mineral properties and related exploration and development costs should be capitalized or expensed and estimates for asset retirement obligations and reclamation costs. Other significant estimates made by the Company include factors affecting valuations of stock-based compensation, warrants, and income tax accounts. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material.

#### (e) Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and short-term deposits, which generally mature within 90 days from the date of acquisition. The deposits are held in Canadian chartered banks or financial institutions controlled by Canadian chartered banks. As at December 31, 2010 and 2009 the Company did not hold any cash equivalents.

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# LARGO RESOURCES LTD.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Stated in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (f) Equipment

Equipment is recorded at cost. Amortization is provided using the following annual rates and methods over the estimated useful lives of the equipment:

Computer	30%	declining balance
Office equipment	20%	declining balance

#### (g) Interest in mineral properties

Exploration and development expenses relating to mineral properties in which the Company has an interest are deferred until the properties are brought into production, at which time they are amortized on a unit-of-production basis. Other general exploration expenses are charged to operations as incurred. The cost of mineral properties abandoned or sold and their related deferred exploration and development costs are expensed to operations in the year of abandonment or sale.

Costs include the cash consideration and the fair market value of the shares issued for the acquisition of mineral properties. Properties acquired under option agreements or by joint ventures, whereby payments are made at the sole discretion of the Company are recorded in the accounts at the time of payment. The carrying value is reduced by option proceeds received until such time as the property cost and deferred expenditures are reduced to nominal amounts at which time proceeds are included in operations.

The Company reviews its interest in mineral properties to determine if events or changes in circumstances have transpired which indicate that the carrying value of its assets may not be recoverable. The recoverability of costs incurred on the properties is dependent upon numerous factors including exploration results, environmental risks, commodity risks, political risks and the Company's ability to attain profitable production. An impairment loss is recognized when the carrying amount of the interest in mineral properties is not recoverable and exceeds its fair value. It is reasonably possible, based on existing knowledge, that changes in future conditions in the near-term could require a change in the determination of the need for and amount of any write-down.

When the Company qualifies for mineral exploration assistance programs associated with the exploration and development of its properties, recoverable amounts are offset against deferred exploration costs incurred when the Company complies with the terms and conditions of the program and the amount of government assistance is reasonably assured.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Stated in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) Stock-based compensation

The Company records compensation cost based on the fair value method of accounting for stock-based compensation. The fair value of stock options is determined using the Black-Scholes option pricing model. The fair value of the options is recognized over the vesting period as compensation expense and contributed surplus. When options are exercised, the proceeds received, together with any related amount in contributed surplus, will be credited to capital stock.

#### (i) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the consolidated financial statement carrying values and the income tax bases of assets and liabilities, and are measured using the enacted or substantively enacted income tax rates and laws that are expected to be in effect when the temporary differences are expected to reverse. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of the enactment or substantive enactment of the change. When the future realization of income tax assets does not meet the test of being more likely than not to occur, a valuation allowance in the amount of the potential future benefit is taken and no net asset is recognized.

#### (j) Asset retirement obligations

The Company will record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its mining properties. This amount is initially recorded at its discounted present value with subsequent annual recognition of an accretion amount on the discounted liability. An equivalent amount is initially recorded as an increase to interest in mineral properties and amortized in operations over the useful life of the properties. Management has determined that the Company does not currently have any material legal obligations relating to the reclamation of its interest in mineral properties.

#### (k) Loss per share

Basic loss per common share has been computed by dividing the loss applicable to common shareholders by the weighted-average number of common shares outstanding during the representative periods. Diluted loss per common share is determined using the treasury stock method under which deemed proceeds on the exercise of stock options and other dilutive instruments are considered to be used to reacquire common shares at the average price for the period with the incremental number of shares being included in the denominator of the diluted loss per share calculation. The diluted loss per share calculation excludes any potential conversion of options and warrants that would decrease loss per share. As at December 31, 2010 and 2009 all outstanding convertible securities have been excluded from diluted loss per share calculations as they are anti-dilutive.

# LARGO RESOURCES LTD.

(A Development Stage Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Stated in Canadian Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (l) Flow-through financing

The Company has financed a portion of its exploration activities through the issue of flow-through shares, which transfer the tax deductibility of exploration expenditures to the investor. Proceeds received on the issue of such shares have been credited to capital stock and the related exploration costs have been charged to interest in mineral properties.

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. When these expenditures are renounced, temporary taxable differences created by the renunciation will reduce share capital.

The Company indemnifies the subscribers of flow-through shares from any tax consequences arising from the failure of the Company to meet its commitments under the flow-through subscription agreements.

#### (m) Financial instruments

Financial assets and liabilities, including derivative instruments, are initially recognized and subsequently measured based on their classification as "held-for-trading", "available-for-sale" financial assets, "held-to-maturity", "loans and receivables", or "other" financial liabilities. Held-for-trading financial instruments are measured at their fair value with changes in fair value recognized in net loss for the period. Available-for-sale financial assets are measured at their fair value and changes in fair value are included in other comprehensive loss until the asset is removed from the balance sheet or until any impairment is determined to be other than temporary. Held-to-maturity investments, loans and receivables and other financial liabilities are measured at amortized cost using the effective interest rate method. Derivative instruments, including embedded derivatives, are measured at their fair value with changes in fair value recognized in net loss for the period, unless the instrument is a cash flow hedge and hedge accounting is applied, in which case changes in fair value are recognized in other comprehensive income.

Fair value measurements are classified using a fair value hierarchy that reflects the significance of the input used in making the measurements. The fair value hierarchy shall have the following levels: (a) quoted market prices (unadjusted) in active markets for identical assets or liabilities (Level 1); (b) inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2); and (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) Future accounting changes

Recent accounting pronouncements that have been announced but are not yet effective are as follows:

##### Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. The CICA concurrently issued Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests," which replace Section 1600 "Consolidated Financial Statements."

Section 1601 provides revised guidance on the preparation of consolidated financial statements and Section 1602 addresses accounting for non-controlling interests in consolidated financial statements subsequent to a business combination. The Company will adopt these standards on January 1, 2011 and is currently assessing the impact of these standards on its consolidated financial statements.

##### International Financial Reporting Standards ("IFRS")

In January 2006, the Canadian Accounting Standards Board ("AcSB") announced its decision to replace Canadian GAAP with IFRS. On February 13, 2008, the AcSB confirmed January 1, 2011 as the mandatory changeover date to IFRS for all Canadian publicly accountable enterprises. This means that the Company will be required to prepare IFRS financial statements for the interim periods and fiscal year ends beginning in 2011. The Company has created an implementation team, consisting of internal resources and external consultants. A changeover plan has been established to convert to the new standards within the allotted timeline. The Company continues to evaluate the impact this will have on the Company's consolidated financial statements.

# LARGO RESOURCES LTD.

(A Development Stage Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010 and 2009

(Stated in Canadian Dollars)

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### 3. CAPITAL MANAGEMENT

The capital structure of the Company as at December 31, 2010 and 2009 consists of equity attributable to common shareholders comprised of share capital, warrants and contributed surplus.

The Company manages and adjusts its capital structure based on available funds in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration and development stage; as such the Company is dependent on external financing to fund its activities. In order to carry out planned exploration and development, and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geological or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the years ended December 31, 2010 and 2009. Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

### 4. FINANCIAL RISK FACTORS

The Company's risk exposures and the impact on the Company's financial instruments are summarized below. There have been no changes in the risks, objectives, policies and procedures from the previous period.

#### **Fair Value**

Canadian generally accepted accounting principles require that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made at the balance sheet dates based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties in significant matters of judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

The carrying amounts for cash, amounts receivable and accounts payable and accrued liabilities on the balance sheets approximate fair values because of the limited term of these instruments. The carrying amount for long-term debt on the balance sheets approximates fair value given the short amount of time passed since its inception.

At December 31, 2010 and 2009, the Company had no financial instruments to classify in the fair value hierarchy.

#### **Credit risk**

The Company's credit risk is primarily attributable to cash and amounts receivable. The Company has no significant concentration of credit risk arising from operations. Financial instruments included in amounts receivable consist of sales tax due from the Federal Government of Canada, proceeds receivable from the exercise of warrants, and receivables from related and unrelated companies. Management believes that the credit risk concentration with respect to these financial instruments is remote.

#### **Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2010, the Company had a cash balance of \$1,366,525 (2009 - \$908,438) to settle current liabilities of \$1,673,730 (2009 - \$1,333,740). The Company's current trade financial liabilities generally have contractual maturities of less than 30 days. See Note 15(b).

Continued...

# LARGO RESOURCES LTD.

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### 4. FINANCIAL RISK FACTORS (Continued)

#### Market risk

##### (a) Interest rate risk

The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. The Company considers interest rate risk to be minimal as investments and interest bearing debt are short term. It is intended that future financing will be secured through a mixture of debt related to the development of the projects and private equity placements. The promissory note (Note 7) bears interest at LIBOR plus 8%. The Company is sensitive to changes in the LIBOR rate through interest expense paid on this loan.

##### (b) Foreign currency risk

The Company's functional currency is the Canadian dollar. The Company has certain property commitments denominated in US dollars and is exposed to currency fluctuations in the US dollar relative to the Canadian dollar. The Company also funds certain operations, exploration and administrative expenses in Brazil on a cash call basis using the Brazilian real and US dollar currencies converted from its Canadian dollar bank accounts held in Canada. The Company does not hedge its foreign exchange risk.

##### (c) Price risk

The Company will be exposed to price risk with respect to commodity prices, specifically vanadium, tungsten and molybdenum. The Company closely monitors commodity prices to determine the appropriate course of action to be taken. The Company's future operations will be significantly affected by changes in the market prices of these commodities. Prices fluctuate on a daily basis and are affected by numerous factors beyond the Company's control. The supply and demand for ore, the level of interest rates, the rate of inflation, investment decisions by large holders of ore and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors may in turn be influenced by changes in international investment patterns, monetary systems and political developments.

#### Sensitivity analysis

Cash and amounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities, which are measured at amortized cost.

As at December 31, 2010, the Company estimates that the carrying and fair value amounts of the Company's financial instruments are approximately the same.

A 10% change in the value of the Canadian dollar compared to the other foreign currencies in which the Company transacts would result in a corresponding foreign exchange gain/loss of approximately \$155,000 based on the balances of monetary assets and liabilities at December 31, 2010.

As at December 31, 2010, the Company had long-term debt with a face value of approximately US\$610,000 (\$606,706) (Note 7). Sensitivity to a plus or minus 1% change in the LIBOR interest rate would affect the net loss by plus or minus \$6,000.

Price risk is remote as the Company is not a producing entity.

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### 5. EQUIPMENT

	2010		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Computer	\$ 45,147	\$ (29,810)	\$ 15,337
Office equipment	76,246	(13,397)	62,849
	<u>\$ 121,393</u>	<u>\$ (43,207)</u>	<u>\$ 78,186</u>

  

	2009		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Computer	\$ 50,053	\$ (28,434)	\$ 21,619
Office equipment	60,214	(8,792)	51,422
	<u>\$ 110,267</u>	<u>\$ (37,226)</u>	<u>\$ 73,041</u>

The net book value of the Company's equipment by geographic location is as follows: Brazil - \$74,423 (2009 - \$66,885) and Canada - \$3,763 (2009 - \$6,156).

Amortization related to equipment used in the exploration and development of the Company's interest in mineral properties of \$11,335 (2009 - \$20,428) has been included in interest in mineral properties.

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### 6. INTEREST IN MINERAL PROPERTIES

2010	Brazil			Canada	TOTAL
	Maracas	Currais Novos Tungsten	Campo Alegre De Lourdes	Northern Dancer	
<b>Acquisition costs</b>					
Balance, December 31, 2009	9,662,157	-	227,563	1,546,794	11,436,514
Acquisition and property costs	5,346,448	1,415,772	58,641	200,000	7,020,861
<b>Balance, December 31, 2010</b>	<b>15,008,605</b>	<b>1,415,772</b>	<b>286,204</b>	<b>1,746,794</b>	<b>18,457,375</b>
<b>Exploration expenditures</b>					
Balance, December 31, 2009	23,334,644	-	-	10,624,464	33,959,108
Drilling	293,104	26,660	-	485,507	805,271
Scoping studies	-	37,117	107,675	-	144,792
Metallurgical tests	514,054	50,521	-	-	564,575
Geological	501,012	125,296	32,099	187,353	845,760
Geological consulting	1,098,307	132,743	-	819,331	2,050,381
field and office support	887,853	527,793	104,377	132,582	1,652,605
Travel and transportation	41,520	-	2,251	34,451	78,222
Legal	22,896	-	-	16,304	39,200
Environmental permitting	-	-	-	-	-
Future tax liability	4,343,546	-	-	55,000	4,398,546
Government assistance	-	-	-	(158,963)	(158,963)
<b>Balance, December 31, 2010</b>	<b>31,036,936</b>	<b>900,130</b>	<b>246,402</b>	<b>12,196,029</b>	<b>44,379,497</b>
<b>Balance, December 31, 2010</b>	<b>46,045,541</b>	<b>2,315,902</b>	<b>532,606</b>	<b>13,942,823</b>	<b>62,836,872</b>

2009	Brazil		Canada	TOTAL
	Maracas	Campo Alegre de Lourdes	Northern Dancer	
<b>Acquisition costs</b>				
Balance, December 31, 2008	\$ 9,214,394	\$ -	\$ 1,542,454	\$ 10,756,848
Acquisition and property costs	447,763	227,563	4,340	679,666
<b>Balance, December 31, 2009</b>	<b>9,662,157</b>	<b>227,563</b>	<b>1,546,794</b>	<b>11,436,514</b>
<b>Exploration expenditures</b>				
Balance, December 31, 2008	21,015,454	-	10,211,745	31,227,199
Geological	51,288	-	97,857	149,145
Geological consulting	1,142,220	-	350,609	1,492,829
Travel and transportation	100,717	-	13,181	113,898
Field and office support	146,173	-	39,517	185,690
Legal	53,792	-	296	54,088
Future income tax effects	825,000	-	-	825,000
Government assistance	-	-	(88,741)	(88,741)
<b>Balance, December 31, 2009</b>	<b>23,334,644</b>	<b>-</b>	<b>10,624,464</b>	<b>33,959,108</b>
<b>Balance, December 31, 2009</b>	<b>\$ 32,996,801</b>	<b>\$ 227,563</b>	<b>\$ 12,171,258</b>	<b>\$ 45,395,622</b>

Continued...

# LARGO RESOURCES LTD.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 6. INTEREST IN MINERAL PROPERTIES (Continued)

#### **BRAZIL MARACAS VANADIUM PROJECT**

On April 10, 2007, the Company entered into a definitive agreement to acquire the rights to earn up to a 90% interest in Companhia Maracas, which holds an approximate 96% interest in Vanadio de Maracas Ltda. a Brazilian company which holds title to the Maracas property in Bahia State, Brazil.

The Company acquired an 80% interest in Companhia Maracas for a purchase price of US\$10,000,000 paid as follows:

- US \$1,000,000 (\$1,088,000) on April 30, 2007 (paid); and
- US \$4,000,000 (\$4,065,600) plus interest calculated at 5.5% on May 1, 2008 (paid) in order to acquire 51%; and
- US \$5,000,000 plus interest calculated at 5.5% on November 1, 2008 in order to acquire the remaining 39% (paid, \$5,147,000 and interest of \$826,426).

The Company also entered into an agreement with Metais Não Ferrosos Da Bahia Ltda. ("MNFB") whereby the Company agreed to sell 10% of the shares purchased above for US\$1,000,000 to MNFB as follows:

- 5.5% upon the Company making the payment of US\$4,000,000 noted above (completed); and
- 4.5% upon the Company making the payment of US\$5,000,000 noted above (completed).

The Company will deduct from dividends to be paid to MNFB from Companhia Maracas the US\$1,000,000 purchase price. As well, pro-rata capital contributions required by all shareholders not initially contributing to the project will be deducted from dividends.

As a result the Company holds an 80% interest as at December 31, 2010 and has included Companhia Maracas in its consolidation for the year ended December 31, 2010.

Subsequent to December 31, 2010, the Company purchased MNFB by making a cash payment of US\$6,000,000. The completion of this transaction brings the Company's total interest in the project to 90%. The Company signed an agreement with Itau Brazil for a bridge loan in the amount of US\$6,000,000 in order to complete payment to MNFB. The bridge loan facility bears interest at 6% per annum.

The Company had the option to buy the remaining 10% by paying US\$8,000,000 by December 31, 2010. This payment was not made and the option expired.

#### **CURRAIS NOVOS TUNGSTEN PROPERTY**

During October and November 2009, the Company signed option agreements with Emprogeo Ltda., Mineração Boca de Laje Ltda. and Mineração Barra Verde Ltda. The agreements provide the Company with rights to acquire two tailings piles and a low-grade mine rejects rock pile.

The first option agreement involved the purchase of the tailings pile originating from the formerly producing Barra Verde mine and the low-grade mine rejects rock pile for US\$500,000 (\$518,550) (paid).

Continued...

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(Stated in Canadian Dollars)

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### 6. INTEREST IN MINERAL PROPERTIES (Continued)

The second option agreement relates to a tailings pile that originated from the Boca de Laje and Barra Verde mines. The Company is required to pay a total of US\$900,000 subject to the Company being satisfied with the outcome of a due diligence process (completed). The payments are due as follows:

- US\$200,000 on August 30, 2010 (paid,\$207,420); and
- US\$300,000 on January 17, 2011 (paid subsequent to December 31, 2010); and
- US\$400,000 on July 17, 2011.

As the due diligence process has been completed the payments due in 2011 have been accrued. An amount of US\$700,000 (\$696,220) has been included in accounts payable and accrued liabilities on the consolidated balance sheet as at December 31, 2010.

#### CAMPO ALEGRE DE LOURDES PROPERTY

On March 27, 2009, the Company entered into an option agreement with Companhia Baiana de Pesquisa Mineral ("CBPM") in order to earn a 100% interest in the Campo Alegre de Lourdes property in Brazil. Pursuant to the terms of the agreement, the Company is required to invest a minimum of 2,000,000 Brazilian reais (\$1,198,000). This amount must be spent within 24 months of the agreement being approved by Brazil's National Department of Mineral Production. Such approval has not been obtained as at December 31, 2010. The Company has spent \$246,402 as at December 31, 2010. The Company is also required to pay a total of 500,000 Brazilian reais as follows:

- R\$100,000 on March 9, 2009 (\$55,000) (paid);
- R\$100,000 on May 9, 2009 (\$56,000) (paid);
- R\$100,000 on July 9, 2009 (\$61,000) (paid);
- R\$100,000 on September 9, 2009 (\$59,000) (paid); and
- R\$100,000 on November 9, 2009 (\$60,000) (paid).

The Company also will be required to pay R\$250,000 (\$150,000) for each mining ordinance granted by the Brazilian National Department of Mineral Production in relation to the exploration areas. Should the Company want to terminate this agreement, a penalty of R\$2,000,000 (\$1,198,000) will be payable to the optionor.

This property is subject to a 3.86% gross sales royalty.

#### CANADA

##### NORTHERN DANCER PROPERTY

On April 10, 2006, the Company entered into an agreement to acquire a 100% interest in the Northern Dancer tungsten-molybdenum project which straddles the Yukon-British Columbia border.

The Company has earned a 70% interest in the property. The Company has the right to earn the remaining 30% by making a cash payment of \$4,800,000 by May 15, 2011. The optionor can elect to receive the remaining payment of \$4,800,000 in common shares of the Company. The property is subject to a 3% Net Smelter Royalty ("NSR"), 2% of which may be assigned to the Company. Upon completing the conditions to earn the 70% interest, the Company was assigned 1% of the NSR. Upon completing the conditions to earn the remaining 30% interest, the Company will be assigned a further 1% of the NSR.

During 2010, government assistance of \$158,963 (2009 - \$88,741) was received related to cash rebates on certain expenditures issued by the Government of the Yukon. Rebates are recorded in the accounts of the Company at the time of receipt due to uncertainties in the recoverability of rebates claimed.

Continued...

# LARGO RESOURCES LTD.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Stated in Canadian Dollars)

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### 7. LONG-TERM DEBT

Subsequent to December 31, 2010, the Company entered into an agreement to issue a promissory note (the "Note") in the amount of US\$4,000,000. The Note bears interest at LIBOR plus 8%. The Note is convertible into common shares of the Company at the option of the holder at the market price of the Company's shares on the date of conversion. The US\$4,000,000 will be advanced to the Company in four tranches. During 2010, the Company received an advance of US\$610,000 (\$606,706) on the first tranche. The remainder of the first tranche of US\$516,333 (for a total of US\$1,126,333) was received on January 20, 2011. The second and third tranches of US\$890,000 and US\$1,000,000 were received on February 11, 2011 and April 4, 2011 respectively. The fourth tranche has not yet been received. Repayments are to commence in February 2012. Accordingly, the entire amount outstanding at December 31, 2010 has been presented as long-term and will be repaid in full during 2012. The Note is secured by the Company's interest in two of its subsidiaries.

### 8. SHARE CAPITAL

#### AUTHORIZED

Unlimited number of common shares with no par value.

#### ISSUED

	<u>December 31, 2010</u>		<u>December 31, 2009</u>	
	Number of	Stated	Number of	Stated
	shares	Value	shares	Value
	#	\$	#	\$
<b>Balance, beginning of the year</b>	<b>218,790,785</b>	<b>46,446,354</b>	<b>148,899,675</b>	<b>42,541,003</b>
Private placements net of issue costs (a, b, c, f, g)	65,760,692	11,920,501	55,173,599	3,812,319
Warrant valuation	-	(1,497,032)	-	(252,374)
Private placements net of issue costs - Flow-through (c, e)	-	-	10,655,555	1,419,685
Warrant valuation	-	-	-	(91,800)
Broker warrants issued	-	(160,746)	-	(54,306)
Flow through tax effect	-	(398,000)	-	(1,172,000)
Options exercised	150,000	15,000	-	-
Transfer fair value from options exercised	-	11,235	-	-
Warrants exercised	12,774,236	2,287,410	-	-
Transfer fair value from warrants exercised	-	372,106	-	-
Shares issued for debt (h)	-	-	4,061,956	243,827
<b>Balance, December 31, 2010</b>	<b>297,475,713</b>	<b>58,996,828</b>	<b>218,790,785</b>	<b>46,446,354</b>

# LARGO RESOURCES LTD.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 8. SHARE CAPITAL (Continued)

- a) On September 16, 2010, the Company closed an equity financing for gross proceeds of \$4,997,500 through the issuance of 29,397,055 units of the Company at a price of \$0.17 per unit. Each unit was comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable for one common share of the Company at a price of \$0.25 until September 16, 2011. The grant date fair value of the warrants was estimated at \$587,941 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 68%; risk-free interest rate of 1.41% and expected life of one year. The agents received a cash commission of \$134,826 and were issued 781,323 broker warrants that entitle them to acquire an equal number of units at a price of \$0.17 per unit until September 16, 2011. The fair value of the broker warrants was estimated at \$46,671 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 68%; risk-free interest rate of 1.41% and an expected life of one year. The Company incurred other cash share issue costs of \$303,672 related to this financing. See Note 13.
- b) On March 5, 2010, the Company completed a private placement by issuing 36,363,637 special warrants of the Company at a price of \$0.22 per special warrant, for gross proceeds of \$8,000,000. Each special warrant entitled the holder thereof to receive one unit of the Company on the exercise or deemed exercise of the special warrant. Each unit was comprised of one common share of the Company and one-half of one common share purchase warrant. Each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.35 until March 5, 2011. The special warrants automatically exercised on May 3, 2010. The grant date fair value of the warrants was estimated at \$909,091 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 118%; risk-free interest rate of 1.54%; and expected life one year. In connection with the placement, a cash fee of \$278,850 was paid to the agents representing 6.5% of the gross proceeds of the brokered portion of the placement. The Company also issued to the agents 1,352,000 warrants exercisable into one common share and one-half of one common share purchase warrant at a price of \$0.22 until March 5, 2011. Each whole warrant entitles the holder thereof to purchase one common share at a price of \$0.35. The fair value of the broker warrants was estimated at \$121,680 on the date of grant using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 118%; risk-free interest rate of 1.54% and an expected life of one year. The Company incurred other cash share issue costs of \$359,651 related to this financing.
- c) On December 14, 2009, the Company closed a flow-through private placement financing through the issuance of 5,555,555 flow-through shares at a price of \$0.18 per flow-through share for total gross proceeds of \$1,000,000. In connection with the financing, the Company paid a finder's fee of \$40,000 equal to 5% of the gross proceeds raised by certain agents, a one-time agent counsel fee of \$20,950 and incurred other costs of \$7,615. The Company also issued 222,222 broker warrants. Each broker warrant entitles the holder to acquire one common share at a price of \$0.18 per share until June 14, 2011. The fair value of the broker warrants was estimated at \$17,778 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 124%; risk-free interest rate of 1.26% and an expected average life of 18 months.

Continued...

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### 8. SHARE CAPITAL (Continued)

- d) On August 26, 2009, the Company closed a non-brokered private placement financing whereby the Company issued 4,000,000 units at a price of \$0.10 per unit for gross proceeds of \$400,000. Each unit was comprised of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.15 at any time prior to February 26, 2011. The grant date fair value of the warrants was estimated at \$72,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 129%; risk-free interest rate of 1.29% and an expected average life of 18 months. In connection with this private placement, 240,000 broker warrants were granted. Each broker warrant entitles the holder to acquire one common share at a price of \$0.10 for a period of 18 months. The fair value of the broker warrants was estimated at \$24,000 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 129%; risk-free interest rate of 1.29% and an expected average life of 18 months. The Company incurred other cash share issue costs of \$25,201 related to this financing.
- e) On July 31, 2009, the Company closed a \$510,000 financing pursuant to which it issued 5,100,000 flow-through units at a price of \$0.10 per unit. Each unit was comprised of one flow-through common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.15 at any time prior to January 31, 2011. The grant date fair value of the warrants was estimated at \$91,800 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 129%; risk-free interest rate of 1.41% and an expected average life of 18 months. In connection with the financing, the Company issued 180,000 compensation options. Each compensation option is exercisable into one compensation unit at a price of \$0.10 per compensation option exercised at any time prior to January 31, 2011. Each compensation unit shall be comprised of one non-flow-through common share and one-half of one common share purchase warrant of the Company. Each whole warrant is exercisable into one common share at a price of \$0.15 at any time prior to January 31, 2011. The grant date fair value of the compensation options was estimated at \$10,800 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 129%; risk-free interest rate of 1.41% and an expected average life of 18 months. The Company incurred other cash share issue costs of \$21,750 related to this financing. See Note 13.
- f) On July 14, 2009, the Company closed a non-brokered private placement financing. The Company issued 10,020,772 units at a price of \$0.10 per unit for gross proceeds of \$1,002,077. Each unit is comprised of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share of the Company at a price of \$0.15 at any time prior to January 14, 2011. The grant date fair value of the warrants was estimated at \$180,374 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 129%; risk-free interest rate of 1.22% and an expected average life of 18 months. In connection with this private placement, 48,000 broker warrants were granted. Each broker warrant entitles the holder to acquire one common share at a price of \$0.15 for a period of 18 months. The fair value of the broker warrants was estimated at \$1,728 on the date of grant using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 129%; risk-free interest rate of 1.22% and an expected average life of 18 months. The Company incurred other cash share issue costs of \$9,582 related to this financing. See Note 13.

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### 8. SHARE CAPITAL (Continued)

- g) On February 5, 2009 the Company closed a non-brokered private placement financing through the issuance of 41,152,827 common shares at \$0.06 per common share for total gross proceeds of \$2,469,170. The Company paid a finder's fee of \$24,145 related to this financing. See Note 13.
- h) During 2009, the Company reached a settlement agreement with certain creditors of the Company to re-structure \$243,827 in outstanding accounts payable and accrued liabilities. On February 10, 2009, the Company settled the outstanding amount through the issuance of 4,061,956 common shares of the Company.

### 9. STOCK OPTIONS

The Company has an incentive stock option plan (the "Plan") whereby the Company can grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. The terms and conditions of each option granted under the Plan will be determined by the Board of Directors. Options will be priced in the context of the market and in compliance with applicable securities laws and Exchange guidelines. Consequently, the exercise price for any stock option shall not be lower than the market price of the underlying common shares at the time of grant. Vesting terms will be determined at the discretion of the Board. The Board shall also determine the term of stock options granted under the Plan, provided that no stock option shall be outstanding for a period greater than five years.

Option activity during the years ended December 31, 2010 and 2009 was as follows:

	December 31, 2010		December 31, 2009	
	Number of	Weighted	Number of	Weighted
	Options	Average	Options	Average
	#	Exercise Price	#	Exercise Price
		\$		\$
<b>Balance, beginning of the year</b>	<b>17,331,250</b>	<b>0.61</b>	13,331,250	0.78
Granted	9,425,000	0.21	4,300,000	0.10
Exercised	(150,000)	0.10	-	-
Expired	(650,000)	0.35	(300,000)	0.59
<b>Balance, end of the year</b>	<b>25,956,250</b>	<b>0.49</b>	17,331,250	0.61

The Company applies the fair value method of accounting for stock-based compensation awards. During the year ended December 31, 2010, 9,425,000 stock options (2009 – 4,300,000) were granted to directors, officers and consultants of the Company. The fair value of each option was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: expected dividend yield of 0% (2009 - 0%); expected volatility of 108% (2009 – 101%); risk-free interest rate of 1.18% (2009 – 1.11%); and an expected average life of 5 years (2009 - 5 years). The estimated grant date fair value of options granted during 2010 was \$0.16 (2009 - \$0.075). The options vested immediately upon grant.

Continued...

# LARGO RESOURCES LTD.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 9. STOCK OPTIONS (Continued)

Of the estimated fair value of the options granted during the year ended December 31, 2010 of \$1,533,500 (2009 - \$322,070), \$754,800 (2009 - \$91,753) was allocated to interest in mineral properties on the balance sheet and \$778,700 (2009 - \$230,318) was allocated to consulting and professional fees on the consolidated statement of operations.

At December 31, 2010, outstanding options to acquire common shares of the Company were as follows:

Number of Options Outstanding and Exercisable	Exercise Price (\$)	Expiry date	Estimated Grant Date Fair Value (\$)
1,375,000	0.33	19-Apr-11	342,375
100,000	0.20	20-Jun-11	15,100
1,225,000	0.25	3-Aug-11	187,425
100,000	0.25	13-Oct-11	20,800
250,000	0.25	14-Nov-11	56,750
200,000	0.35	13-Dec-11	59,000
170,000	0.35	23-Jan-12	41,350
50,000	0.46	22-Mar-12	15,900
100,000	0.80	30-Apr-12	68,300
2,940,000	0.73	6-Jun-12	1,609,503
100,000	0.74	1-Aug-12	54,600
1,421,250	0.50	20-Feb-13	383,227
75,000	0.50	7-Apr-13	26,693
200,000	0.77	2-Jun-13	122,847
50,000	0.70	12-Aug-13	24,284
4,025,000	1.50	23-Jun-13	4,281,445
4,150,000	0.10	15-May-14	310,835
4,150,000	0.24	27-Jan-15	747,000
200,000	0.24	1-Feb-15	34,000
4,950,000	0.18	9-Aug-15	693,000
125,000	0.29	4-Nov-15	27,500
<b>25,956,250</b>			<b>9,121,934</b>

The remaining weighted average contractual life of options outstanding at December 31, 2010 was 2 years (2009 - 3 years).

See Note 15(c) for details of options exercised and expired subsequent to December 31, 2010.

# LARGO RESOURCES LTD.

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### 10. WARRANTS

	Year ended December 31, 2010		Year ended December 31, 2009	
	Number of warrants #	Weighted Average Exercise Price \$	Number of warrants #	Weighted Average Exercise Price \$
	<b>Balance, beginning of the year</b>	<b>16,667,673</b>	<b>0.26</b>	19,297,065
Granted	50,533,774	0.34	10,250,608	0.15
Exercised	(12,774,236)	(0.18)	-	-
Expired	(2,854,565)	(0.79)	(12,880,000)	0.72
<b>Balance, end of the year</b>	<b>51,572,646</b>	<b>0.27</b>	16,667,673	0.26

The weighted average grant date fair value of warrants granted during 2010 was \$0.03 (2009 - \$0.04).

Outstanding warrants to acquire common shares of the Company at December 31, 2010 were as follows:

<u>Number of Warrants</u> #	<u>Exercise Price</u> \$	<u>Expiry Date</u>	<u>Grant Date Fair Value</u> \$
3,979,386	0.15	January 14, 2011	143,258
180,000 *	0.10	January 31, 2011	10,800
1,652,828	0.15	January 31, 2011	59,502
1,352,000 **	0.22	March 5, 2011	121,680
11,363,636	0.35	March 5, 2011	568,182
6,818,182	0.35	March 5, 2011	340,909
25,548,119	0.25	September 16, 2011	508,905
<u>678,495 ***</u>	0.17	September 16, 2011	<u>33,925</u>
<b><u>51,572,646</u></b>			<b><u>1,787,161</u></b>

\* These are exercisable into units consisting of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.15 until January 31, 2011.

\*\* These are exercisable into units consisting of one common share and one-half of one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.35 until March 8, 2011.

\*\*\* These are exercisable into units consisting of one common share and one common share purchase warrant. Each whole warrant is exercisable into one common share at a price of \$0.25 until September 16, 2011.

See Note 15(c) for details of warrants exercised and expired subsequent to December 31, 2010.

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### 11. CONTRIBUTED SURPLUS

	December 31, 2010	December 31, 2009
<b>Balance, beginning of the year</b>	<b>\$ 10,482,285</b>	<b>\$ 9,308,215</b>
Expiry of warrants, reallocation of valuation	238,861	852,000
Exercise of options, reallocation of valuation	(11,235)	-
Stock options granted and/or vested during the year		
Employee	774,000	245,297
Non-employee	759,500	76,773
<b>Balance, end of the year</b>	<b>\$ 12,243,411</b>	<b>\$ 10,482,285</b>

### 12. INCOME TAXES

#### (a) Provision for income taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of approximately 31% (2009 - 33%) were:

	2010	2009
Net loss for the year before income taxes	<b>\$ (2,505,549)</b>	<b>\$ (1,238,064)</b>
Expected recoverable income taxes at statutory rates	<b>(777,000)</b>	(409,000)
Increase (decrease) resulting from:		
Stock-based compensation	<b>252,000</b>	76,000
Share issue costs	<b>(334,000)</b>	(50,000)
Difference in tax rates	-	4,000
Disposal of subsidiary	<b>742,000</b>	-
Expiry of non-capital losses	<b>48,000</b>	20,000
Change in tax rates	<b>152,000</b>	134,000
Change in foreign exchange rates	<b>148,000</b>	-
Other	<b>702,454</b>	(36,000)
Change in valuation allowance	<b>(28,000)</b>	(137,000)
Provision for income taxes	<b>\$ 905,454</b>	<b>\$ (398,000)</b>

#### (b) Future tax balances

Future income taxes in Canada:

	2010	2009
Future income tax assets (liabilities)		
Non-capital losses	<b>\$ 986,000</b>	\$ 747,000
Resource properties	<b>386,000</b>	359,000
Share issue costs	<b>457,000</b>	407,000
Other temporary differences	<b>17,000</b>	17,000
Valuation allowance	<b>(1,846,000)</b>	(1,132,000)
Net future income tax asset	<b>\$ -</b>	<b>\$ 398,000</b>

Continued...

# LARGO RESOURCES LTD.

(A Development Stage Company)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 12. INCOME TAXES (Continued)

#### (b) Future tax balances (Continued)

Future income taxes in Ecuador:

	<u>2010</u>	<u>2009</u>
Future income tax assets (liabilities)		
Interest in mineral property	\$ -	\$ 732,000
Other	-	10,000
Valuation allowance	-	(742,000)
Net future income tax asset	<u>\$ -</u>	<u>\$ -</u>

Future income taxes in Brazil:

	<u>2010</u>	<u>2009</u>
Future income tax assets (liabilities)		
Interest in mineral property	\$ (16,520,000)	\$ (11,216,000)
Valuation allowance	-	-
Net future income tax liability	<u>\$ (16,520,000)</u>	<u>\$ (11,216,000)</u>

The Company has approximately \$3,943,000 of non-capital losses in Canada and approximately \$15,500,000 of Canadian development and exploration expenditures as at December 31, 2010 which under certain circumstances can be used to reduce the taxable income of future years. The non-capital losses expire as follows:

<u>Expiry Date</u>	<u>Amount</u>
2014	\$ 557,000
2015	598,000
2026	251,000
2028	733,000
2029	692,000
2030	<u>1,112,000</u>
	<u>\$3,943,000</u>

The Company has approximately \$1,203,000 of exploration expenditures in Brazil which under certain circumstances can be used to reduce the taxable income of future years.

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### 13. RELATED PARTY TRANSACTIONS

During 2010, the Company was charged \$60,000 (2009 - \$55,000) by a corporation controlled by a director of the Company for administrative services. These amounts are included in consulting and professional fees on the statement of operations.

The Company shares its premises with other corporations that have common directors and the Company reimburses the related corporations for its proportional share of the expenses. Included in accounts payable and accrued liabilities at December 31, 2010 is \$37,994 (2009 - \$nil) owing to such corporations and included in amounts receivable is \$nil (2009 - \$9,101) advanced to such corporations. These amounts are non-interest bearing, unsecured with no fixed terms of repayment.

Other amounts owing to directors and officers of the Company and included in accounts payable and accrued liabilities relating to consulting fees at December 31, 2010 were \$174,550 (2009 - \$119,650). These amounts are unsecured, non-interest bearing with no fixed terms of repayment.

The above transactions were in the normal course of operations are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

On December 1, 2008, the Company was advanced \$140,000 (net of a \$10,000 arrangement fee) pursuant to a loan agreement with a corporation whose sole director is also a director of a Company. The principal amount was repaid on February 28, 2009.

Aberdeen International Inc. ("Aberdeen") and Consolidated Thompson Iron Mines participated in the February 2009 private placement, subscribing for 3,333,333 and 16,666,667 units respectively. Consolidated Thompson Iron Mines and the Company had an officer and two directors in common. Aberdeen and the Company have an officer and two directors in common.

Officers and directors of the Company subscribed for a total of 1,616,667 units of the February 5, 2009 private placement.

Officers and directors of the Company subscribed for a total of 1,950,000 units of the July 14, 2009 private placement.

One officer of the Company subscribed for a total of 100,000 flow-through units of the July 31, 2009 private placement.

Officers and directors of the Company subscribed for a total of 1,999,997 units of the September 16, 2010 private placement.

On August 27, 2010, the Company entered into a bridge loan agreement pursuant to which it borrowed \$750,000 from a corporation. In consideration for the loan, the Company paid a fee of \$22,500 and issued 500,000 warrants of the Company to the lender. Each warrant entitles the lender to receive one common share of the Company at a price of \$0.17, expiring on August 31, 2011. The fair value of the warrants of \$35,000 was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 101% risk-free interest rate of 1.25%; and an expected average life of 1 year. The loan amount plus accrued interest of \$4,192 was repaid on September 16, 2010. The Company and the lender have a common director

The above transactions are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

Continued...

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### 14. COMMITMENTS AND CONTINGENCIES

The Company entered into flow-through share subscription agreements during the year ended December 31, 2009, whereby it renounced to investors a total of \$1,505,000 of qualifying Canadian Exploration Expenses as described in the Income Tax Act of Canada, with an effective date of December 31, 2009. The Company is committed to incur the expenditures on or before December 31, 2010. At December 31, 2010, the Company had fulfilled its \$1,505,000 commitment.

The Company is party to certain management and consulting contracts. Minimum commitments remaining under the agreements are approximately \$323,000 all payable within one year. These contracts also require that additional payments of up to \$3,144,000 be made upon the occurrence of certain events such as change of control. As the likelihood of these events taking place is not determinable, the contingent payments have not been reflected in these financial statements.

The Company's mining and exploration activities are subject to various federal, provincial and international laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for its directors and officers.

### 15. SUBSEQUENT EVENTS

- a) Subsequent to December 31, 2010, the Company purchased MNFB by making a cash payment of US\$6,000,000. The completion of this transaction brings the Company's total interest in the project to 90%. The Company signed an agreement with Itau Brazil for a bridge loan in the amount of US\$6,000,000 in order to complete payment. The bridge loan facility bears interest at 6% per annum and is secured against all of the shares of MNFB and Vanadio de Maracas Ltda., such security will be extinguished immediately upon repayment. Repayment of the principal and interest relating to this bridge loan is due on April 27, 2011.
- b) On April 11, 2011, the Company closed a non-brokered private placement through the issuance of 85,714,286 units and 242,718,844 subscription receipts for aggregate gross proceeds to the Company of \$114,951,596. Each unit and each subscription receipt was issued at a price of \$0.35 per unit or subscription receipt. Each unit is comprised of one common share and one-third of one common share purchase warrant of the Company, where each whole warrant entitles the holder to acquire one further common share at a price of \$0.50 for a period of 48 months from the date of issuance. Each subscription receipt is convertible, at no additional cost, into one unit on the same terms above upon the satisfaction of certain escrow release conditions or if exercised at the discretion of the holder. A cash commission of 5% of the gross proceeds was paid. In addition, certain finders will be paid a finders' fee equal to 5% of the subscription raised by such finders. Three investors were given the ability to each appoint one director to the Board of Directors of the Company.

Continued...

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### 15. SUBSEQUENT EVENTS (Continued)

- c) Subsequent to December 31, 2010, 10,775,295 common share purchase warrants expired unexercised. A total of 17,447,909 common share purchase warrants were exercised for gross proceeds to the Company of \$4,615,481. This includes the exercise of 90,000 warrants which were issued upon the exercise of 180,000 warrants which were exercisable into one common share and one half of one common share purchase warrant. A total 652,500 options were exercised for gross proceeds to the Company of \$129,062 and 1,322,500 options expired unexercised.
- d) On January 20, 2011, the Company signed a supply agreement for the sale of concentrate from the Currais Novos property. The price of concentrate is set at the London Metal Bulletin Tungsten APT European free market US Dollar per metric ton unit low price average for the month prior to shipment ("LMB Low"). The term of the agreement is from July 1, 2011 to October 30, 2015, subject to a two-year extension. On or after April 15, 2012, if the Company fails to ship a monthly minimum as specified in the agreement, the Company must either i) purchase the material from a third-party supplier and deliver to the purchaser in accordance with the terms of the agreement or ii) make a cash payment in an amount equal to the difference between 77% of the LMB Low and 85% of the LMB Low for each metric ton unit not delivered to the purchaser. The purchaser also agreed to fund up to an additional USD\$2,000,000, if required, for capital expenditures at the Currais Novos property.
- e) On January 20, 2011 the Company granted 100,000 stock options. Each option is exercisable at \$0.40 for a period of five years. The options vested immediately.