

LARGO RESOURCES LTD.

(A Development Stage Company)

**Interim Consolidated Financial Statements
For the nine months ending
September 30, 2006 and September 30, 2005**

LARGO RESOURCES LTD.

(A Development Stage Company)

CONSOLIDATED BALANCE SHEETS

(PREPARED BY MANAGEMENT)

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)
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Assets		
Current		
Cash and cash equivalents	\$ 473,220	\$ 342,074
Amounts receivable	55,389	89,299
Prepaid expenses	<u>47,021</u>	<u>19,528</u>
	575,630	450,901
Equipment	19,324	20,477
Interest in mineral properties (Note 2)	<u>4,620,325</u>	<u>4,545,298</u>
	<u>\$ 5,215,279</u>	<u>\$ 5,016,676</u>
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Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 283,009	\$ 76,112
Future tax liability	<u>486,000</u>	<u>486,000</u>
	<u>\$ 769,009</u>	<u>\$ 562,112</u>
Shareholders' Equity		
Capital Stock		
Share capital (Note 3)	10,598,210	9,022,076
Warrants (Note 5)	2,289,850	1,337,000
Contributed surplus (Note 6)	2,223,384	788,384
Deficit	<u>(10,665,174)</u>	<u>(6,692,896)</u>
	<u>4,446,270</u>	<u>4,451,564</u>
	<u>\$ 5,215,279</u>	<u>\$ 5,016,676</u>
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- See Notes to the Consolidated Financial Statements -

LARGO RESOURCES LTD.

(A Development Stage Company)

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(PREPARED BY MANAGEMENT)

(UNAUDITED)

	Three months ended September 30		Nine months ended September 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
Expenses				
Consulting and professional fees	95,581	99,806	241,944	242,676
Stock-based compensation expense (note 4)	262,725	11,400	670,000	225,000
Shareholder communications and filing fees	71,745	7,378	102,915	43,860
General office expenses	31,469	27,826	73,089	72,105
Travel expenses	12,694	8,841	36,220	35,804
Foreign exchange (gain)/loss	5,098	(23,534)	7,381	(18,821)
Amortization	491	3,283	968	3,723
	479,803	135,000	1,132,517	604,347
Loss before the undernoted	<u>(479,803)</u>	<u>(135,000)</u>	<u>(1,132,517)</u>	<u>(604,347)</u>
Interest and dividend income	3,140	2,099	10,239	8,285
Write down of mineral property (note 2)	(2,850,000)	-	(2,850,000)	-
Loss for the period	<u>(3,326,663)</u>	<u>(132,901)</u>	<u>(3,972,278)</u>	<u>(596,062)</u>
DEFICIT, beginning of period	(7,338,511)	(6,427,292)	(6,692,896)	(5,964,131)
DEFICIT, end of period	(10,665,174)	(6,560,193)	(10,665,174)	(6,560,193)
Basic and diluted loss per share	0.06	0.00	0.08	0.02
Weighted average number of common shares outstanding basic and diluted	55,953,911	29,111,574	46,850,063	25,268,030

- See Notes to the Consolidated Financial Statements -

LARGO RESOURCES LTD.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(PREPARED BY MANAGEMENT)

(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
	\$	\$	\$	\$
CASH (USED IN) PROVIDED BY				
OPERATING ACTIVITIES				
Net income (loss) for the period	(3,326,663)	(132,901)	(3,972,278)	(596,062)
Adjustment for non-cash items				
Amortization and/or depletion	491	3,283	968	3,723
Stock-based compensation	262,725	11,400	670,000	225,000
Write down of mineral property	2,850,000	-	2,850,000	-
	(213,447)	(118,218)	(451,310)	(367,339)
Net change in non-cash working capital	(43,590)	61,709	(92,085)	(42,676)
	(257,037)	(56,509)	(543,395)	(410,015)
FINANCING ACTIVITIES				
Issue common shares, net of issue costs	938,480	1	2,700,734	879,401
Exercise of warrants	3,250	780,000	3,250	780,000
	941,730	780,001	2,703,984	1,659,401
INVESTING ACTIVITIES				
Change in accounts payable re: exploration	255	36,971	305,399	44,779
Purchase of equipment	0	8	(6,723)	(23,788)
Interest in mineral properties	(895,662)	(660,377)	(2,328,119)	(1,491,798)
	(895,407)	(623,398)	(2,029,443)	(1,470,807)
CHANGE IN CASH AND CASH EQUIVALENTS	(210,714)	100,094	131,146	(221,421)
CASH AND CASH EQUIVALENTS, beginning of period	683,934	716,196	342,074	1,037,711
CASH AND CASH EQUIVALENTS, end of period	473,220	816,290	473,220	816,290
SUPPLEMENTAL INFORMATION:				
Interest paid	\$ -	\$ -	\$ -	\$ -
Issuance of shares for exploration property, plant and equipment	\$ 50,000	\$ -	\$ 590,000	\$ 40,000

Cash and equivalents consist of the following:

Cash	\$ 472,933	\$ 137,888	\$ 472,933	\$ 137,888
Equivalents	287	678,402	287	678,402
	\$ 473,220	\$ 816,290	\$ 473,220	\$ 816,290

- See Notes to the Consolidated Financial Statements -

LARGO RESOURCES LTD.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2006

1. BASIS OF PRESENTATION AND GOING CONCERN

These interim financial statements are unaudited and are not reviewed by the Company's auditors.

The management of Largo Resources Ltd. (the "Company") have prepared these interim consolidated financial statements for the nine months ended September 30, 2006 in accordance with generally accepted accounting principles in Canada for interim reporting. The most significant of these accounting principles have been set out in the December 31, 2005 audited financial statements. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005.

The disclosure in these interim consolidated financial statements does not conform in all respects to generally accepted accounting principles in Canada for annual financial reporting.

The statements have been presented in the accrual basis of accounting. Accordingly a precise determination of any assets and liabilities is dependent upon future events. Estimates and approximations have been made using careful judgment. Recognizing that the Company is both responsible for the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented. Operating results for the nine months ended September 30, 2006 may not be indicative of the results that may be expected for the full year ending December 31, 2006.

The Company uses the same methods and accounting policies described in the December 31, 2005 consolidated financial statements.

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 financial statements.

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.

LARGO RESOURCES LTD.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2006

2. INTEREST IN MINERAL PROPERTIES

	Ecuador			Brazil	Canada	Total \$
	Macuchi Property \$	Cotopaxi Property \$	Other Ecuador \$	Invest- igations Brazil \$	Northern Dancer \$	
Acquisition costs						
Balance, December 31, 2005	1,300,602	351,416				1,652,018
Acquisition and property costs		111,009			619,100	730,109
Balance, September 30, 2006	1,300,602	462,425			619,100	2,382,127
Exploration expenditures						
Balance, December 31, 2005	2,563,979	262,123	65,847	1,331		2,893,280
Drilling	300	223	1,187		668,894	670,604
Geological	5,461		2,403		55,601	63,465
Geological consulting	76,558	3,255	58,436	50,690	345,738	534,677
Travel and transportation	7,802		2,485	14,261	252,662	277,210
Field and office support	77,980	7,881	10,990	1,296	527,493	625,640
Management					23,322	23,322
Balance, September 30, 2006	2,732,080	273,482	141,348	67,578	1,873,710	5,088,198
Property write down	(2,850,000)					(2,850,000)
Total Balance, September 30, 2006	1,182,682	735,907	141,348	67,578	2,492,810	4,620,325

MACUCHI PROPERTY, NORTHERN ECUADOR

On January 19, 2004, the Company entered into an agreement to acquire 100% of the shares of Compania Minera Minchoa S.A. ("Minchoa"), an Ecuadorian company, from Forbes and Manhattan. Minchoa holds the right to earn up to 100% interest in mining concession located in Ecuador.

In order to earn a 51% interest in the property, the Company through Minchoa, was required to spend US\$1,500,000 by January 23, 2006 (completed) and pay cash amounts aggregating US\$200,000 by January 19, 2005 (completed). Upon earning a 51% interest, the Company may purchase the remaining 49% for cash of US\$1,000,000 and the issuance of common shares of the Company equivalent to US\$500,000.

The Company has met the conditions and earned its 51% interest, subsequent to the end of the quarter, the company has exercised its right to acquire the additional 49%.

In October 2006, the Company signed an agreement to option the Macuchi property to Aur Resources Inc ("Aur"). The earn-in agreement gives Aur the right to earn a 75% interest in the property by making cash payments to the Company totaling \$1.025 million and incurring expenditures on the property totaling US\$3.5 million dollars over a five years period. As a result of the agreement the Company recognized an impairment on the carrying value of the property and wrote it down by \$2,850,000.

LARGO RESOURCES LTD.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2006

2. INTEREST IN MINERAL PROPERTIES (Continued)

COTOPAXI PROPERTY, NORTHERN ECUADOR

On July 7, 2004, the Company entered into an agreement to acquire a 100% interest in the Cotopaxi Property which covers approximately 64,000 Ha in the Macuchi-La Plata belt.

To earn its interest in the property, the Company is required to make the following payments and share issuances:

- US\$50,000 on the signing of the definitive purchase agreement (paid);
- US\$100,000 and issue 200,000 shares of the Company on July 7, 2005; (paid; shares issued with a deemed value of \$40,000 based on the quoted market value at the date of issue);
- US\$125,000 and issue 200,000 shares of the Company on July 7, 2006; (paid; shares issued with a deemed value of \$50,000 based on the quoted market value at the date of issue);
- US\$150,000 and issue 200,000 shares of the Company on July 7, 2007.

In addition, the Company is required to pay the annual claim rental fee, estimated to be US\$64,000.

NORTHERN DANCER PROPERTY

The Company has entered into an agreement to acquire a 100% interest in the Northern-Dancer tungsten-molybdenum project (formerly the Logtung property) which straddles the Yukon-British Columbia border. To earn its interest in the property, the Company is required to make the following payments and share issuances.

- pay \$75,000 upon execution of a transfer agreement (paid)
- to earn 70%, the Company must:
 - spend \$5,000,000 on exploration over three years. \$1,500,000 must be spent by the first anniversary of the agreement. The balance must be spent by the third anniversary of the agreement.
 - issue 2,000,000 common shares upon execution of agreement (issued with a deemed value of \$540,000 based on the quoted market value at the date of issue)
 - issue 1,000,000 common shares on twelve-month anniversary of agreement
 - issue 1,000,000 common shares on twenty-four month anniversary of agreement

Within twelve months of earning 70%, the Company has the right to earn the remaining 30% by making a cash payment of \$5,000,000 or issuing the equivalent value in shares. The property is subject to a 3%NSR (2% may be acquired by the Company).

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(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2006

3. SHARE CAPITAL

AUTHORIZED

Unlimited number of common shares with no par value

ISSUED

	September 30, 2006		December 31, 2005	
	NUMBER OF SHARES	STATED VALUE \$	NUMBER OF SHARES	STATED VALUE \$
Common shares				
Balance, beginning of the year	30,974,074	9,022,076	20,774,074	7,897,149
Private placements,				
Both flow –through and				
Non flow–through, net of issue cost (i)	20,000,000	1,762,254	4,000,000	876,927
Both flow –through and				
Non flow –through, net of issue cost (ii)	4,020,000	938,480		
Issued for mineral property	2,200,000	590,000	200,000	40,000
Warrant valuation	-	(1,717,850)	-	(572,000)
Warrants exercised	25,000	3,250	<u>6,000,000</u>	<u>780,000</u>
Balance, end of period	<u>57,219,074</u>	<u>10,598,210</u>	<u>30,974,074</u>	<u>9,022,076</u>

(i) On March 28, 2006, the Company raised \$2,000,000 by way of a non-brokered private placement through the issuance of 13,100,000 Units and 6,900,000 Flow Through Units each priced at \$0.10. Each Unit consists of one common share of the Company and one common share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.13 for a period of two years. Each Flow Through Unit consists of one flow through share and one common share purchase warrant. Each share purchase warrant entitles the holder to purchase one common share of the Company at a price of \$0.13 for a period of 2 years. The fair value of the warrants of \$1,720,000 was estimated using the Black-Scholes options pricing model with the following assumptions: an expected dividend yield of 0%, expected volatility of 100%, a risk-free interest rate of 4.00% and an expected life of 2 years.

(ii) On August 2, 2006, the Company completed a \$1,005,000 private placement offering through the issuance of 400,000 common shares and 3,620,000 flow through shares both at a price of \$0.25 per share. Each of the shares and flow through shares is subject to a hold period that will expire on December 3, 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2006

4. STOCK OPTIONS

	September 30, 2006		December 31, 2005	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Balance, beginning of the year	2,350,000	0.35	1,930,000	0.39
Granted	3,350,000	0.28	1,000,000	0.30
Cancelled	(200,000)	0.27	(680,000)	0.38
Balance, end of period	5,500,000	0.31	2,350,000	0.35

The Company applies the fair value method of accounting for stock-based compensation awards. During the nine months ended September 30, 2006, 3,350,000 stock options (2005 – 900,000) 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 assumptions: expected dividend yield of 0% (2005 - 0%); expected volatility of 98% (2005 - 100%); risk free interest rate of 4.5% (2005 - 4%); and an expected average life of 5 years (2005– 5 years). This generated an expense to stock-based compensation of \$670,000 (2005 - \$225,000).

At September 30, 2006, outstanding options to acquire common shares of the Company were as follows:

<u>Number of options outstanding</u>	<u>Exercise Price</u> \$	<u>Expiry Date</u>	<u>Fair Value</u> \$
650,000	0.26	September 5, 2008	169,000
150,000	0.68	January 19, 2009	78,000
200,000	0.50	April 2, 2009	69,000
100,000	0.50	April 5, 2009	34,500
50,000	0.50	June 15, 2009	9,150
800,000	0.35	March 6, 2010	213,600
200,000	0.18	October 5, 2010	27,400
1,575,000	0.325	April 19, 2011	392,175
150,000	0.26	May 1, 2011	29,400
100,000	0.20	June 20, 2011	15,100
<u>1,525,000</u>	0.25	August 3, 2011	<u>233,325</u>
<u>5,500,000</u>			<u>1,270,650</u>

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(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2006

5. WARRANTS

	September 30, 2006		December 31, 2005	
	Number of warrants	Weighted Average Exercise Price \$	Number of warrants	Weighted Average Exercise Price \$
Balance, beginning of the year	7,060,000	0.46	9,060,000	0.29
Granted, private placements	20,000,000	0.13	4,000,000	0.35
Exercised	(25,000)	0.13	(6,000,000)	0.13
Expired or cancelled	(3,060,000)	0.60		
Balance, end of period	23,975,000	0.17	7,060,000	0.46

Outstanding warrants to acquire common shares of the Company at September 30, 2006 were as follows:

Number of Warrants	Exercise Price \$	Expiry Date	Fair Value \$
4,000,000	0.35	March 9, 2007	572,000
19,975,000	0.13	March 28, 2008	1,717,850
23,975,000			2,289,850

6. CONTRIBUTED SURPLUS

Opening balance, December 31, 2005	\$	788,384
Expired of Warrants, reallocation of valuation	\$	765,000
Options Granted		
- Officers and Directors	\$	581,475
- Consultants	\$	88,525
Ending balance, September 30, 2006	\$	2,223,384

LARGO RESOURCES LTD.

(A Development Stage Company)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three and nine months ended September 30, 2006

7. COMMITMENTS

During the nine months ended September 30, 2006, the company issued 10,520,000 flow-through shares and intends to renounce \$1,595,000 related to the flow through shares with an effective date of December 31, 2006. The Company will therefore be required to spend \$1,595,000 on qualified explorations expenditures by December 31, 2007. The Company will be required to pay interest penalty of approximately 5% per annum on the unspent amount between March and December 2007.

8. RELATED PARTY

The Company was charged \$45,000 (2005: \$45,000) by a company controlled by a director of the Company for administrative services the nine months ended September 30, 2006. Related parties are reimbursed for out of pocket expenses.

The Company shares its premises with other companies that have common directors, and the Company reimburses the related companies for its proportional share of the expenses.

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

9. SUBSEQUENT EVENTS

In October 2006, the Company signed an agreement to option the Macuchi property to Aur Resources Inc ("Aur"). The earn-in agreement gives Aur the right to earn a 75% interest in the property by making cash payments to the Company totaling \$1.025 million and incurring expenditures on the property totaling US\$3.5 million dollars over a five period as follows.

- Cash US\$50,000 on the signing of the definitive purchase agreement (received);
- US\$50,00 on or before October 13, 2007;
- US\$100,000 on or before October 13, 2008;
- US\$200,000 on or before October 13, 2009;
- US\$200,000 on or before October 13, 2010;
- US\$425,000 on or before October 13, 2011;
- Incur US\$500,000 in exploration expenditures on or before October 31, 2007;
- Incur a further US\$3,000,000 in exploration expenditures on or before October 31, 2011.

The agreement with Aur follows the completion of the Company's exercise of its option to acquire the 49% interest in the Macuchi property that it does not currently own. In order to complete this acquisition, the Company is required to fulfill its cash payments to the owners of the property of US\$1,000,000 and share issuances equivalent to US\$500,000 in value over a four year period.

9. SUBSEQUENT EVENTS (Continued)

On October 24, 2006, the Company announced that it had signed a letter of intent with Odebrecht S.A. (ODEBRECHT) and Caemi Mineracao e Metalurgia S.A. (CAEMI) expressing its intention to acquire 90% of Companhia de Maracas, currently owned by CAEMI and ODEBRECHT.

Upon the potential signing of the respective acquisition agreement, the Company shall acquire a 90% interest in Maracas, subject to the terms and conditions set forth therein, for a purchase price of US\$10.0 million payable as follows:

- \$US1.0 million payable upon filing under protocol of the Environmental License required by DNPM for the issuance of the Mining/Exploitation Licences (Portarias de Lavra), based on Art. 6 of Resolucao CONAMA no. 09/1990;
- \$US4.0 million 12 months from the date of first payment (on the condition that the Mining/Exploitation Licenses (Portarias de Lavra) have been issued by DNPM);
- \$US5.0 million 18 months from the date of first payment (on the condition that the Mining/Exploitation Licenses (Portarias de Lavra) have been issued by DNPM)

In connection with the acquisition, Cancap Investments Limited will retain a 2% N.S.R. on the Company and will be issued 300,000 common shares of the Company at a deemed price of CDN\$0.25 per share as a finder's fee. The agreement and finder's fee remain subject to regulatory approval.

10. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current reporting period.