



LARGO RESOURCES LTD.

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

(Expressed in thousands / 000's of U.S. dollars)

TABLE OF CONTENTS

Management's Responsibility for Financial Reporting.....	i
Independent Auditor's Report	ii
Consolidated Statements of Financial Position	1
Consolidated Statements of Income (Loss) and Comprehensive Income (Loss).....	2
Consolidated Statements of Changes in Equity	3
Consolidated Statements of Cash Flows	4
Notes to the Annual Consolidated Financial Statements	5
1) Nature of operations.....	5
2) Statement of compliance.....	5
3) Change in functional and presentation currency	5
4) Basis of preparation, significant accounting policies, and future accounting changes	7
5) Amounts receivable	21
6) Inventory.....	21
7) Vanadium products.....	21
8) Other intangible assets	21
9) Mine properties, plant and equipment	22
10) Leases	23
11) Accounts payable and accrued liabilities	23
12) Debt	23
13) Provisions	24
14) Issued capital.....	26
15) Equity reserves.....	26
16) Earnings (loss) per share	28
17) Taxes.....	28
18) Related party transactions.....	30
19) Segmented disclosure	30
20) Commitments and contingencies	32
21) Capital management	33
22) Financial instruments	33
23) Revenues	36
24) Expenses.....	36
25) Subsequent events	36

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Largo Resources Ltd. (the "Company") for the years ended December 31, 2020 and 2019 have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Management is responsible for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and, where relevant, the choice of accounting principles.

In discharging its responsibility for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and an appropriate system of internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained.

The board of directors (the "Board" or "Board of Directors") and the Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information presented. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and the independent auditors. The Audit Committee has the responsibility of meeting with management and the independent auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board is also responsible for recommending the appointment of the Company's external independent auditors.

The Company's independent auditors audit the consolidated financial statements annually on behalf of the Company's shareholders. The Company's independent auditors have full and free access to management and the Audit Committee.

(signed)

Paulo Misk

President & Chief Executive Officer

March 17, 2021

(signed)

Ernest Cleave

Chief Financial Officer

March 17, 2021



Independent auditor's report

To the Shareholders of Largo Resources Ltd.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Largo Resources Ltd. and its subsidiaries (together, the Company) as at December 31, 2020 and 2019 and January 1, 2019, and its financial performance and its cash flows for the years ended December 31, 2020 and 2019 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2020 and 2019 and January 1, 2019;
- the consolidated statements of income (loss) and comprehensive income (loss) for the years ended December 31, 2020 and 2019;
- the consolidated statements of changes in equity for the years ended December 31, 2020 and 2019;
- the consolidated statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Assessment of impairment indicators of mine properties, plant and equipment (mine PP&E)</p> <p><i>Refer to note 4c – Significant accounting policies, note 4d – Critical judgements and estimation uncertainties and note 9 – Mine properties, plant and equipment to the consolidated financial statements.</i></p> <p>The net book value of mine PP&E amounted to US\$149 million as at December 31, 2020. The carrying values of mine PP&E are assessed by management for impairment when indicators of impairment exist.</p> <p>In undertaking the assessment of whether impairment indicators exist, management is required to apply significant judgment in assessing whether changes to certain external and internal factors would be considered an indicator of impairment. Internal and external factors, such as (i) changes in future production and sales volumes; (ii) changes in quantity and grade of the recoverable reserves and resources; (iii) changes in vanadium prices, capital and operating costs; and (iv) changes in discount rates, are evaluated by management in determining whether there are any indicators of impairment. No impairment indicators were noted.</p> <p>We considered this a key audit matter due to (i) the significance of the mine PP&E balance and (ii) the significant audit effort and subjectivity in applying audit procedures to assess the internal and external factors evaluated by management in its assessment of impairment indicators, which required significant management judgment.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Evaluated management’s assessment of indicators of impairment, which included the following:<ul style="list-style-type: none">– Assessed the completeness of external and internal factors that could be considered as indicators of impairment of the Company’s mine PP&E, including consideration of evidence obtained in other areas of the audit.– Assessed the changes in vanadium prices, quantity and grade of the recoverable reserves and resources, capital and operating costs, future production and sales volumes and discount rates by considering external market data, current and past performance of the Company and evidence obtained in other areas of the audit, as applicable.



Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Marelize Barber.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

March 17, 2021

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Notes	As at		
		December 31, 2020	December 2019	January 1, 2019
Assets			Restated (note 3)	Restated (note 3)
Current Assets				
Cash		\$ 79,145	\$ 127,499	\$ 151,388
Restricted cash		-	76	15
Amounts receivable	5	19,097	6,150	45,932
Inventory	6	35,337	17,981	10,552
Vanadium products	7	-	3,258	-
Prepaid expenses		3,718	1,632	2,460
Total Current Assets		137,297	156,596	210,347
Non-current Assets				
Deferred income tax	17(c)	7,178	10,571	13,863
Other intangible assets	8	4,366	-	-
Mine properties, plant and equipment	9	148,965	190,494	181,685
Total Non-current Assets		160,509	201,065	195,548
Total Assets		\$ 297,806	\$ 357,661	\$ 405,895
Liabilities				
Current Liabilities				
Accounts payable and accrued liabilities	11	\$ 15,968	\$ 77,741	\$ 24,570
Deferred revenue		3,223	-	-
Current portion of provisions	13	368	475	307
Debt	12	24,788	-	86,100
Total Current Liabilities		44,347	78,216	110,977
Non-current Liabilities				
Provisions	13	6,295	7,342	6,509
Total Non-current Liabilities		6,295	7,342	6,509
Total Liabilities		50,642	85,558	117,486
Equity				
Issued capital	14	406,214	396,026	378,859
Equity reserves	15	21,291	21,448	26,308
Accumulated other comprehensive loss		(108,438)	(66,501)	(63,634)
Deficit		(71,903)	(78,870)	(53,124)
Total Equity		247,164	272,103	288,409
Total Liabilities and Equity		\$ 297,806	\$ 357,661	\$ 405,895
Commitments and contingencies	9, 20			
Subsequent events	25			

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

	Notes	Years ended December 31,	
		2020	2019
			Restated (note 3)
Revenues	23	\$ 119,987	\$ 105,107
Other gains (losses)	7	1,636	(1,360)
		121,623	103,747
Expenses			
Operating costs	24	(88,390)	(92,950)
Professional, consulting and management fees		(8,255)	(9,979)
Foreign exchange (loss)		(9,064)	(6,011)
Other general and administrative expenses	24	(3,329)	(3,184)
Share-based payments	15	(1,638)	(3,554)
Finance costs	24	(1,350)	(13,692)
Interest income		1,148	4,913
Exploration and evaluation costs		(3,022)	(2,784)
		(113,900)	(127,241)
Net income (loss) before tax		\$ 7,723	\$ (23,494)
Income tax (expense)	17(a)	(139)	(864)
Deferred income tax (expense)	17(a)	(823)	(2,612)
Net income (loss)		\$ 6,761	\$ (26,970)
Other comprehensive income (loss)			
Items that subsequently will be reclassified to operations:			
Unrealized (loss) on foreign currency translation		(41,937)	(2,867)
Comprehensive (loss)		\$ (35,176)	(29,837)
Basic earnings (loss) per Common Share	16	\$ 0.12	\$ (0.50)
Diluted earnings (loss) per Common Share	16	\$ 0.11	\$ (0.50)
Weighted Average Number of Shares Outstanding (in 000's)			
- Basic	16	56,402	53,499
- Diluted	16	61,360	53,499

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares
(except per share information)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Shares	Issued Capital	Equity Reserves	Accumulated Other Comprehensive Loss	Deficit	Shareholders' Equity
Balance at January 1, 2019 (Restated¹)	529,126	\$ 378,859	\$ 26,308	\$ (63,634)	\$ (53,124)	\$ 288,409
Grant of share options	-	-	637	-	-	637
Grant of restricted share units	-	-	1,867	-	-	1,867
Share-based payments	-	-	1,050	-	-	1,050
Exercise of warrants	21,176	13,479	(4,771)	-	-	8,708
Exercise of share options	3,248	2,062	(793)	-	-	1,269
Exercise of restricted share units	984	1,626	(1,626)	-	-	-
Expiry of warrants	-	-	(70)	-	70	-
Expiry of share options	-	-	(1,154)	-	1,154	-
Currency translation adjustment	-	-	-	(2,867)	-	(2,867)
Net loss for the year	-	-	-	-	(26,970)	(26,970)
Balance at December 31, 2019 (Restated¹)	554,534	\$ 396,026	\$ 21,448	\$ (66,501)	\$ (78,870)	\$ 272,103
Grant of share options	-	-	743	-	-	743
Grant of restricted share units	-	-	437	-	-	437
Share-based payments	-	-	458	-	-	458
Exercise of warrants	29,529	6,136	(2,320)	-	-	3,816
Exercise of share options	805	626	(209)	-	-	417
Exercise of restricted share units	403	1,183	(1,183)	-	-	-
Expiry of warrants	-	-	(159)	-	159	-
Expiry of share options	-	-	(47)	-	47	-
Purchase consideration (note 8)	2,518	2,243	2,123	-	-	4,366
Currency translation adjustment	-	-	-	(41,937)	-	(41,937)
Net income for the year	-	-	-	-	6,761	6,761
Balance at December 31, 2020	587,789	\$ 406,214	\$ 21,291	\$ (108,438)	\$ (71,903)	\$ 247,164

1. Refer to note 3.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	Years ended December 31,	
		2020	2019
			Restated
			(note 3)
Operating Activities			
Net income (loss) for the year		\$ 6,761	\$ (26,970)
Adjustment for Non-cash Items			
Other (gains) losses	7	(1,636)	1,360
Depreciation		17,507	23,868
Share-based payments	15	1,638	3,554
Unrealized foreign exchange (gain) loss		(12,750)	8,448
Finance costs	24	1,350	13,692
Interest income		(1,148)	(4,913)
Income tax expense	17(a)	139	864
Deferred income tax expense	17(a)	823	2,612
Income tax paid		(619)	(888)
Cash Provided Before Working Capital Items		12,065	21,627
Change in amounts receivable		(14,378)	38,852
Change in inventory		(16,215)	(7,836)
Change in vanadium products		5,036	(4,625)
Change in prepaid expenses		(2,356)	765
Change in accounts payable and accrued liabilities		(46,883)	55,814
Change in deferred revenue		3,223	-
Net Cash (Used in) Provided by Operating Activities		(59,508)	104,597
Financing Activities			
Receipt of debt	12	24,788	-
Repayment of debt	12	-	(92,812)
Debt issue costs, interest and other associated fees paid		-	(7,331)
Interest received		1,135	4,917
Change in restricted cash		76	(61)
Issuance of common shares	15	4,233	9,977
Net Cash Provided by (Used in) Financing Activities		30,232	(85,310)
Investing Activities			
Mine properties, plant and equipment		(18,106)	(37,948)
Net Cash (Used in) Investing Activities		(18,106)	(37,948)
Effect of foreign exchange on cash		(972)	(5,228)
Net Change in Cash		(48,354)	(23,889)
Cash position – beginning of the year		127,499	151,388
Cash Position – end of the year		\$ 79,145	\$ 127,499
Non-cash investing activities	8		

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

1) Nature of operations

The Company is a producer and supplier of high-quality vanadium products, which are sourced from one of the world's highest-grade vanadium deposits at the Company's Maracás Menchen Mine located in Brazil. Substantially all of the Company's efforts are devoted to operating the Maracás Menchen Mine and to the sales of vanadium. While the Company's Maracás Menchen Mine has reached commercial production, future changes in market conditions and feasibility estimates could result in the Company's mineral resources not being economically recoverable.

The Company is a corporation governed by the Business Corporations Act (Ontario) and domiciled in Canada whose shares are listed on the Toronto Stock Exchange ("TSX"). The head office, principal address and records office of the Company are located at 55 University Avenue, Suite 1105, Toronto, Ontario, Canada M5J 2H7.

2) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to a going concern. The significant accounting policies applied in these consolidated financial statements are presented in note 4 and are based on IFRS effective as at December 31, 2020.

The consolidated financial statements were approved by the Board of Directors of the Company on March 17, 2021.

3) Change in functional and presentation currency

On May 1, 2020 the Company changed its presentation currency from the Canadian dollar ("C\$" or "CAD") to the U.S. dollar ("\$" or "USD"). Prior period comparative information has been restated in U.S. dollars to reflect the change in presentation currency.

Also on May 1, 2020 the functional currency of Largo Resources Ltd., Largo Commodities Holding Ltd. and Largo Commodities Trading Ltd. changed prospectively to the U.S. dollar from the Canadian dollar, Euro and Euro, respectively. The Company reconsiders the functional currency of its operations if there is a change in events and conditions which determine the primary economic environment. In early 2020, the Company's off-take agreement with its former off-take partner expired, and the Company started generating U.S. dollar denominated revenues and incurring U.S. dollar denominated costs. This is a significant judgment considering the significance of the revenues and costs to the Company's activities, and the primary economic environments in which the Company and its subsidiaries operate.

The exchange rates used to translate assets and liabilities to reflect the change in functional currency on adoption is \$1 equals C\$1.3874 and \$1 equals 0.9194 Euros ("EUR").

The financial statements of entities with a functional currency that is not the U.S. dollar have been translated into U.S. dollars in accordance with International Accounting Standards ("IAS") 21, The Effects of Changes in Foreign Exchange Rates, as follows:

- Assets and liabilities have been translated into U.S. dollars using period-end exchange rates of:
 - January 1, 2019: \$1 equals C\$1.3620 and \$1 equals 3.8748 Brazilian reals ("BRL").
 - December 31, 2019: \$1 equals C\$1.3023, \$1 equals 0.8902 EUR and \$1 equals 4.0307 BRL.
- Consolidated statements of income (loss) and other comprehensive income (loss) have been translated using average foreign exchange rates prevailing during the reporting periods which ranged from \$1 equals C\$1.3199 to C\$1.3397 and \$1 equals 3.7684 to 4.1158 BRL;
- Shareholder's equity balances have been translated using historical average foreign exchange rates for the periods in which the transactions occurred; and
- Resulting exchange differences have been recorded within the foreign currency translation reserve accounts.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The impact of the change in presentation currency on the consolidated financial statements is as follows:

Consolidated statement of financial position – as at January 1, 2019

	Previously reported in CAD	Restated USD
Assets		
Total Current Assets	C\$ 286,491	\$ 210,347
Total Non-current Assets	266,334	195,548
Total Assets	552,825	405,895
Liabilities		
Total Current Liabilities	C\$ 151,233	\$ 110,977
Total Non-current Liabilities	8,865	6,509
Total Liabilities	160,098	117,486
Equity		
Issued capital	C\$ 415,259	\$ 378,859
Equity reserves	25,853	26,308
Accumulated other comprehensive loss	(18,904)	(63,634)
Deficit	(29,481)	(53,124)
Total Equity	392,727	288,409
Total Liabilities and Equity	C\$ 552,825	\$ 405,895

Consolidated statement of financial position – as at December 31, 2019

	Previously reported in CAD	Restated USD
Assets		
Total Current Assets	C\$ 203,992	\$ 156,596
Total Non-current Assets	262,126	201,065
Total Assets	466,118	357,661
Liabilities		
Total Current Liabilities	C\$ 101,979	\$ 78,216
Total Non-current Liabilities	9,572	7,342
Total Liabilities	111,551	85,558
Equity		
Issued capital	C\$ 437,937	\$ 396,026
Equity reserves	19,447	21,448
Accumulated other comprehensive loss	(38,744)	(66,501)
Deficit	(64,073)	(78,870)
Total Equity	354,567	272,103
Total Liabilities and Equity	C\$ 466,118	\$ 357,661

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of income (loss) and comprehensive income (loss) – year ended December 31, 2019

	Previously reported in CAD	Restated USD
Revenues	C\$ 140,012	\$ 105,107
Other gains (losses)	(1,795)	(1,360)
	138,217	103,747
Operating costs	(123,841)	(92,950)
Professional, consulting and management fees	(13,250)	(9,979)
Foreign exchange loss	(8,350)	(6,011)
Other general and administrative expenses	(3,901)	(3,184)
Share-based payments	(4,716)	(3,554)
Finance costs	(18,290)	(13,692)
Interest income	6,556	4,913
Exploration and evaluation costs	(3,684)	(2,784)
	(169,476)	(127,241)
Net income (loss) before tax	C\$ (31,259)	\$ (23,494)
Income tax (expense)	(1,144)	(864)
Deferred income tax (expense)	(3,809)	(2,612)
Net income (loss)	C\$ (36,212)	\$ (26,970)
Other comprehensive income (loss)		
Unrealized gain (loss) on foreign currency translation	(19,840)	(2,867)
Comprehensive income (loss)	C\$ (56,052)	\$ (29,837)

Consolidated statement of cash flows – year ended December 31, 2019

	Previously reported in CAD	Restated USD
Net Cash Provided by Operating Activities	C\$ 139,282	\$ 104,597
Net Cash (Used in) Financing Activities	(115,226)	(85,310)
Net Cash (Used in) Investing Activities	(50,386)	(37,948)
Effect of foreign exchange on cash	(13,781)	(5,228)
Net Change in Cash	(40,111)	(23,889)
Cash position – beginning of the year	206,188	151,388
Cash position – end of the year	C\$ 166,077	\$ 127,499

4) Basis of preparation, significant accounting policies, and future accounting changes

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and vanadium products which are measured at fair value and certain inventory balances carried at net realizable value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies.

These consolidated financial statements are presented in thousands of U.S. dollars, unless otherwise noted. References to the symbol "C\$" or "CAD" mean the Canadian dollar, references to the symbol "EUR" mean the Euro and references to the symbol "R\$" or "BRL" mean the Brazilian real, the official currency of Brazil.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

a) Basis of consolidation

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

The consolidated financial statements include the financial condition and results of operations of the Company and its subsidiaries as outlined below:

Name	Property	December 31,		Arrangement	Accounting Method
		2020	2019		
Vanádio de Maracás S.A.	Maracás Menchen Mine (Brazil)	99.94%	99.94%	Subsidiary	Consolidation
Mineração Campo Alegre de Lourdes Ltda.	Campo Alegre Project (Brazil)	100%	100%	Subsidiary	Consolidation
Mineração Currais Novos Ltda.	Currais Novos Project (Brazil)	100%	100%	Subsidiary	Consolidation
Largo Resources (Yukon) Ltd.	Northern Dancer Project (Canada)	100%	100%	Subsidiary	Consolidation
Largo Commodities Holding Ltd.	N/A	100%	100%	Subsidiary	Consolidation
Largo Commodities Trading Ltd.	N/A	100%	100%	Subsidiary	Consolidation
Largo Resources USA Inc.	N/A	100%	100%	Subsidiary	Consolidation
Largo Clean Energy Corp.	N/A	100%	N/A	Subsidiary	Consolidation

b) Functional and presentation currency

The consolidated financial statements are presented in U.S. dollars which is the functional and reporting currency of the Company. The functional currency of the Company's Brazilian subsidiaries is the Brazilian real, the functional currency of the Company's Canadian subsidiary is the Canadian dollar, the functional currency of Largo Commodities Holding Ltd. and Largo Commodities Trading Ltd. is the U.S. dollar and the functional currency of Largo Resources USA Inc. and Largo Clean Energy Corp. is the U.S. dollar.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates prevailing at that date. Non-monetary items denominated in foreign currencies are translated at the rates prevailing on the transaction dates. Income and expenses are translated at the average exchange rates for the period where these approximate the rates on the dates of transactions.

Exchange differences are recognized in the consolidated statement of income (loss) and comprehensive income (loss) in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

All other foreign exchange gains and losses are presented in the consolidated statement of income (loss) and comprehensive income (loss) within "foreign exchange (loss)".

The financial statements of subsidiaries that do not have the U.S. dollar as the functional currency are translated into U.S. dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position; income and expenses – at the average rate for the period (if this is considered a reasonable approximation to actual rates) or at the rate on the date of transaction. All resulting changes are recognized in other comprehensive income (loss) as foreign currency translation adjustments.

c) Significant accounting policies

1. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. At December 31, 2020 and 2019, the Company held no cash equivalents.

2. Inventories

Finished product inventories, work-in-process inventory and stockpiles are measured at the lower of weighted average production cost or average purchase cost and net realizable value. Warehouse materials are measured at the lower of average purchase cost and net realizable value. Net realizable value is calculated as the difference between the estimated selling price and estimated costs to complete processing into a saleable form and variable selling expenses.

Production costs include the cost of materials, labour, mine site production overheads, depreciation and conversion costs to the applicable stage of processing.

The cost of ore stockpiles is increased based on the related current cost of production for the period and decreases in stockpiles are charged to cost of sales using the weighted average cost per tonne. Stockpiles are segregated between current and non-current inventories in the consolidated statement of financial position based on the period of planned usage.

Provisions are recorded to reduce the carrying amount of inventory to net realizable value to reflect changes in grades, quantity or other economic factors and to reflect current intentions for the use of redundant or slow-moving items. Provisions for redundant and slow-moving items are made by reference to specific items of inventory. The Company reverses provisions where there is a subsequent increase in net realizable value and where the inventory is still on hand.

Spare parts, stand-by and servicing equipment held are generally classified as inventories. Major capital spare parts and stand-by equipment (insurance spares) are classified as a component of mine properties, plant and equipment.

3. Vanadium products

Prior to May 1, 2020, vanadium products were initially recorded at cost on the date that control of the vanadium products passes to the Company. Cost was calculated as the purchase price, excluding transaction fees, which were expensed as incurred. Subsequent to initial recognition, vanadium products were measured at fair value at each reporting period end. Fair value was determined based on the most recent observable vanadium market transaction data as reported by a recognized provider of global metal prices. Gains and losses arising on the sale of the vanadium products and fair value gains and losses were recorded in the consolidated statements of income (loss) and comprehensive income (loss) as other gains (losses) in the period in which they arise.

The Company's off-take agreement with its former off-take partner expired at the end of April 2020. In connection with this and with the Company managing its own sales activities from May 1, 2020 onwards,

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

the Company's vanadium products are accounted for as finished products inventory effective from May 1, 2020.

4. Mineral exploration, evaluation and development properties

- Exploration and evaluation properties

Expenditures on exploration and evaluation activities are expensed to exploration and evaluation costs in the consolidated statement of income (loss) and comprehensive income (loss). The cost of acquiring prospective properties and exploration rights is capitalized to exploration and evaluation properties in the consolidated statement of financial position.

Post-acquisition exploration and evaluation costs relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to development properties. Subsequent expenditures are capitalized to development properties.

Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If impairment indicators are identified and an impairment test is performed, all irrecoverable costs will be written off.

- Development properties

When economically viable reserves have been determined and the decision to proceed with development has been approved, the expenditures related to construction are capitalized to development properties in the consolidated statement of financial position. Costs associated with the commissioning of new assets in the period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues. Interest on borrowings related to the construction and development of qualifying assets are capitalized until substantially all the activities required to make the asset ready for its intended use are complete.

5. Mine properties, plant and equipment

Upon completion of mine construction, development property assets are transferred to mine properties, plant and equipment. Items of plant and equipment and mine properties are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets, borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire or construct the asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use. The capitalized value of a finance lease would also be included within mine properties, plant and equipment.

When a mine construction project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for costs which qualify for capitalization relating to mining asset additions or improvements, or mineable reserve development.

When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

6. Depreciation

Effective from the point an asset is available for its intended use, mine properties, plant and equipment are depreciated using either the straight line or units-of-production methods over the shorter of the estimated economic life of the asset or the mining operation. Depreciation and amortization are determined based on the method which best represents the use of the assets.

The reserve and resource estimates for each mining operation are the prime determinants of the life of a mine. In general, when the useful life of mine properties, plant and equipment is akin to the life of the mining operation and the ore body's mineralization is reasonably well defined, the asset is depreciated on a units-of-production basis over its proven and probable mineral reserves. Non-reserve material may be included in depreciation calculations in limited circumstances where there is a high degree of confidence in its economic extraction. The Company evaluates the estimate of mineral reserves and resources at least on an annual basis and adjusts the units-of-production calculation prospectively. In 2020 and 2019, the Company has not incorporated any non-reserve material in its depreciation calculations on a units-of-production basis. When mine properties, plant and equipment are depreciated on a straight-line basis, the useful life of the asset is determined based on its estimated economic life and the most recent life of mine ("LOM") plan. LOM plans are typically developed annually and are based on management's current best estimates of optimized mine and processing plans, future operating costs and the assessment of capital expenditures of a mine site. Any change in the useful life is adjusted prospectively.

The estimated useful lives for machinery and equipment ranges from 10 to 30 years. Computers, office equipment and vehicles are depreciated using the declining balance method using rates of 20%, 10% and 20%, respectively.

Amounts related to capitalized costs of exploration and evaluation assets, development properties and construction in progress are not amortized as the assets are not available for use.

Capitalized stripping costs are depreciated over the reserves that directly benefit from the specific stripping activity using the units-of-production method. Capitalized borrowing costs are amortized over the useful life of the related asset. Residual values, useful lives and amortization methods are reviewed at least annually and adjusted if appropriate. The impact of changes to the estimated useful lives, change in depreciation method or residual values is accounted for prospectively.

7. Other intangible assets

Other intangible assets includes acquired intellectual property, which is initially recognized at fair value. The fair value was determined through reference to the acquisition cost paid. Other intangible assets are amortized on a straight-line basis over their useful life. The estimated useful life is 10 years.

8. Impairment of non-financial assets

The carrying values of capitalized exploration and evaluation properties, development properties, mine properties, plant and equipment and other intangible assets are assessed by management for impairment when indicators of such impairment exist. If any indication of impairment exists an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less costs of disposal ("FVLCD") of the asset and the asset's value in use ("VIU").

Impairment is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, the individual assets of the Company are grouped together into cash generating units ("CGUs") for impairment purposes. Such CGUs represent the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash flows from other assets or other groups of assets. This generally results in the Company evaluating its non-financial assets on a mine or project basis.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

If the carrying amount of the asset or CGU exceeds its recoverable amount, the asset or CGU is impaired, and an impairment loss is charged to the consolidated statement of income (loss) and comprehensive income (loss) so as to reduce the carrying amount to its recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the factors which gave rise to the triggering event. If this is the case, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

9. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in the consolidated statement of income (loss) and comprehensive income (loss) in the period in which they are incurred.

10. Revenues

Revenues include sales of vanadium products. The Company recognizes revenue when it transfers control of a product to the customer. The principal activity from which the Company generates its revenue is the sale of vanadium products to third parties. Delivery of the vanadium product is considered to be the only performance obligation. Revenues are measured based on the consideration specified in the contract with the customer.

Under the terms of the Company's vanadium sales agreement that expired on April 30, 2020, vanadium prices were provisionally set at the time revenue was recognized based upon market commodity prices. Revenue, and a trade receivable, was recognized at the time of shipment, which is when control of the vanadium product passed to the customer and the Company's performance obligation was satisfied. Revenue was measured using market prices on the date of transfer of control of the vanadium product. Changes in the measurement of the trade receivable, which was re-measured once the date that final selling prices were determined had been set by the Company's former off-take partner, were also recognized as a component of revenues in the period in which the final price was determined. Variations occurred between the price recorded on the date of revenue recognition and the actual final price under the terms of the contract due to changes in market prices.

11. Deferred revenue

Deferred revenue is recognized in the consolidated statement of financial position when a cash prepayment is received from a customer prior to the sale of vanadium. Revenue is subsequently recognized in the consolidated statement of income (loss) and comprehensive income (loss) when control has been transferred to the customer. The Company determines the current portion of deferred revenue based on quantities anticipated to be delivered over the next twelve months.

12. Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based payment transactions are set out in note 15.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The fair value determined at the grant date of the equity-settled share-based payments is expensed or capitalized, as appropriate, on a graded vesting basis over the period during which the employee becomes unconditionally entitled to equity instruments, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For those options and warrants that expire after vesting, the recorded value is transferred to deficit.

13. Taxation

Income and deferred income tax expense or recovery is comprised of current and deferred tax. Current and deferred taxes are recognized in the consolidated statement of income (loss) and comprehensive income (loss) except to the extent that they relate to an asset acquisition, or items recognized directly in equity or in other comprehensive income (loss).

- Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous years.

- Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

14. Financial instruments

Financial instruments are recognized on the consolidated statement of financial position on the trade date, the date on which the Company or its subsidiaries become party to the contractual provisions of the financial instrument. All financial instruments are required to be classified and measured at fair value on initial recognition. The Company recognizes financial assets and financial liabilities on the date the Company becomes a party to the contractual provisions of the instruments. A financial asset is derecognized either when the Company has transferred substantially all the risks and rewards of ownership of the financial asset or when cash flows expire. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of Income (loss) and comprehensive income (loss). Certain financial instruments are recorded at fair value in the consolidated statement of financial position.

- Non-derivative financial instruments

Non-derivative financial instruments are recognized initially at fair value plus attributable transaction costs, where applicable, for financial instruments not classified as fair value through profit or loss. Subsequent to initial recognition, non-derivative financial instruments are classified and measured as described below.

Financial assets at fair value through profit or loss ("FVTPL")

Cash, restricted cash and trade receivables with the Company's former off-take partner (refer to revenues accounting policy in note 4(c) part 10 and to note 22(a)) are classified as financial assets at FVTPL and are measured at fair value. Cash includes short-term investments with initial maturities of three months or less. The unrealized gains or losses related to changes in fair value of cash and restricted cash are reported in the consolidated statement of income (loss) and comprehensive income (loss). Changes in the value of trade receivables with the Company's former off-take partner were recognized in revenues in the consolidated statement of income (loss) and comprehensive income (loss).

Amortized cost

Amounts receivable, excluding trade receivables classified as financial assets at FVTPL, are classified as and measured at amortized cost using the effective interest rate ("EIR") method, less expected credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. EIR amortization is included in finance costs in the consolidated statement of income (loss) and comprehensive income (loss).

Non-derivative financial liabilities

Accounts payable and accrued liabilities, long-term debt, and other long-term liabilities are classified as and accounted for at amortized cost, using the EIR method. The amortization of long-term debt issue costs is calculated using the EIR method. Gains and losses are recognized in the consolidated statement of income (loss) and comprehensive income (loss) when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

- Derivative financial instruments

The Company may hold derivative financial instruments to hedge its risk exposure to fluctuations of other currencies compared to the Canadian dollar and the U.S. dollar. All derivative instruments not designated in a hedge relationship that qualifies for hedge accounting are classified as financial instruments at FVTPL.

Further, any equity instrument that does not satisfy the fixed-for-fixed criteria for classification in equity will be classified as a derivative financial instrument.

Derivative financial instruments at FVTPL, including embedded derivatives requiring separation from its host, are recorded in the consolidated statement of financial position at fair value.

Changes in estimated fair value of non-hedge derivatives at each reporting date are included in the consolidated statement of income (loss) and comprehensive income (loss).

Embedded derivatives in financial liabilities measured at amortized cost are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Impairment of financial assets

The Company recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Loss allowances for other receivables are always measured at an amount equal to lifetime ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information. The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 60 days past due.

The Company considers a financial asset to be in default when the debtor is unlikely to pay its credit obligations to the Company in full or if the financial asset is more than 120 days past due.

- Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls, which is the difference between the cash flows due to the Company and the cash flows expected to be received.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

- Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred, such as a default or being more than 120 days past due.

- Presentation of allowance for ECLs

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

- Write-off

The gross carrying amount of a financial asset carried at amortized cost is written off, either partially or in full, to the extent that there is no realistic prospect of recovery.

15. Provisions

- General

Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of income (loss) and comprehensive income (loss), net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

- Environmental rehabilitation

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings ponds, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related asset. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of income (loss) and comprehensive income (loss). Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of income (loss) and comprehensive income (loss).

16. Earnings (loss) per share

Earnings (loss) per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted earnings (loss) per share reflects the potential dilution of common share equivalents, such as outstanding share options, warrants and restricted share units, in the weighted average number of common shares outstanding during the period, if dilutive. In the Company's case, diluted loss per share is the same as basic loss per share in the current period presented as the effects

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

of including all convertible securities would be anti-dilutive. If the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively. If these changes occur after the reporting period but before the financial statements are authorised for issue, the per share calculations for those and any prior period financial statements presented shall be based on the new number of shares.

17. Leases

At the inception of a contract, the Company assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
 - the Company has the right to operate the asset; or
 - the Company designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for leases of land and buildings in which it is a lessee, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of its useful life or the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortized cost using the effective interest method and is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the consolidated statement of income (loss) and comprehensive income (loss) if the carrying amount of the right-of-use asset has been reduced to zero.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Lease payments for short-term leases, leases of low-value assets and variable lease payments not included in the measurement of the lease liability are classified as cash flows from operating activities. Cash payments for the principal portion of the lease liability are included in financing activities and cash payments for the interest paid portion of the lease liability are included in debt issue costs, interest, guarantee fees and other associated fees paid in financing activities.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

18. Operating segments

The Company is engaged in the mining, exploration and development of mineral properties, primarily in Brazil, through which it produces and supplies vanadium products. The segments presented reflect the way in which the Company's management reviews its business performance. Operating segments are reported in a manner consistent with the internal reporting provided to executive management who act as the chief operating decision-maker. Executive management is responsible for allocating resources and assessing performance of the operating segments. The Company's operating segments are its sales & trading, mine properties, corporate and exploration and evaluation properties ("E&E properties") segments.

d) Critical judgements and estimation uncertainties

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about the carrying amount of its assets and liabilities that are not readily apparent from other sources. These estimates and assumptions are based on management's best knowledge of the relevant facts and circumstances taking into account previous experience, but actual results may differ from the amounts included in the consolidated financial statements.

The following are the critical judgments and areas involving estimates that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

1. Determination of mineral reserve and resource estimates

The estimates for mineral reserves and mineral resources are determined based on a professional evaluation using accepted international standards for the assessment of mineral reserves and resources. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves and resources may change based on additional knowledge gained subsequent to the initial assessment. This may include additional data available from continuing exploration, results from the reconciliation of actual mining production data against the original reserve and resource estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

A number of accounting estimates are impacted by the mineral reserve and resource estimates:

- Capitalization and depreciation of stripping costs;
- Determination of the useful life of mine properties, plant and equipment and measurement of the depreciation expense;
- Impairment analysis of non-financial assets including evaluation of estimated future cash flows of CGUs; and
- Estimates of the timing of outlays for environmental rehabilitation obligations.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

A change in the original estimate of reserves and resources could have a material effect in the future on the Company's financial position and results of operations.

2. Valuation of mine properties, plant and equipment, development properties, exploration and evaluation properties and other intangible assets

The Company carries its mine properties, plant and equipment, development properties, exploration and evaluation properties and other intangible assets at cost less accumulated depreciation and any provision for impairment.

The Company undertakes a review of the carrying values of mine properties, plant and equipment, development properties, exploration and evaluation properties and other intangible assets whenever events or changes in circumstances indicate that their carrying values may exceed their estimated net recoverable amounts determined by reference to estimated future operating results and, for mine properties, discounted net future cash flows.

In undertaking the assessment of whether impairment indicators exist, management is required to apply significant judgment in assessing whether changes to certain external and internal factors would be considered an indicator of impairment. Internal and external factors, such as (i) changes in future production and sales volumes; (ii) changes in quantity and grade of the recoverable reserves and resources; (iii) changes in vanadium prices, capital and operating costs; and (iv) changes in discount rates, are evaluated by management in determining whether there are any indicators of impairment. Estimated quantities and grades of the recoverable reserves and resources are based on information compiled by qualified persons (management's experts). No impairment indicators were noted.

An impairment loss is recognized when the carrying value of those assets is not recoverable. In undertaking this review, management of the Company is required to make significant estimates of, amongst other things, future production and sale volumes, reserve and resource quantities, metal prices, future capital and operating costs, discount rates and reclamation costs to the end of the mine's life. These estimates are subject to various risks and uncertainties which may ultimately have an effect on the expected recoverability of the carrying values of the Company's mine properties, plant and equipment (see note 9) and other intangible assets (see note 8).

3. Estimates of provisions for environmental rehabilitation

The Company has obligations for environmental rehabilitation related to its mine and development properties. The future obligations for mine closure activities are estimated by the Company using mine closure plans or other similar studies which outline the requirements that will be carried out to meet the obligations. Because the obligations are dependent on the Brazilian laws and regulations under which the mines operate, the requirements could change as a result of amendments in the laws and regulations relating to environmental protection and other legislation affecting resource companies.

As the estimate of obligations is based on future expectations, a number of estimates and assumptions are made by management in the determination of environmental rehabilitation provision. The environmental rehabilitation provisions are more uncertain the further into the future the mine closure activities are to be carried out.

The Company's policy for recording reclamation and other closure provisions is to establish provisions for future costs based on the present value of the future cash flows required to satisfy the environmental obligations. This provision is updated as the estimate for future closure costs change. The amount of the present value of the provision is added to the cost of the related development asset or mine property and will be depreciated over the life of the mine. The provision is accreted to its future value over the life of mine through a charge to finance costs in the consolidated statement of income (loss) and comprehensive income (loss). Refer to note 13(c).

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

4. Determination of functional currency

The functional currency of the Company and its subsidiaries is the currency of the primary economic environment in which the entity operates. In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, management determined that the functional currency of the Company and the Company's Irish and U.S. subsidiaries is the U.S. dollar. The functional currency of the Company's primary Brazilian operating subsidiary is the Brazilian real. Refer to note 3 for details of the changes in functional currencies.

The determination of functional currency may involve certain judgments to determine the primary economic environment. The Company reconsiders the functional currency of its entities if there is a change in events and conditions which determine the primary economic environment.

5. Current and deferred taxes

The Company is subject to income and other taxes in various jurisdictions. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax filings are subject to audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made. Any estimates for value added and withholding taxes have been included in accounts payable and accrued liabilities. Based on Vanádio de Maracás S.A.'s history of taxable profits and management's assessment of the likelihood of future taxable profits, a deferred income tax asset was recognized at December 31, 2020 for non-capital losses in Brazil (refer to note 17).

During the year ended December 31, 2020, the Company entered into a binding agreement with one of its subsidiaries as a distributor of vanadium products. The Company expects future taxable income based on the approved business plans and budgets from the distribution business as well as taxable interest income received from intercompany loans and therefore recognized a deferred income tax asset in Canada (refer to note 17).

6. Contingencies

Refer to notes 13 and 20.

7. COVID-19

The Company is conscious of the rapid expansion of the COVID-19 pandemic and the evolving global implications. To date, there have been no significant disruptions to the Company's operations, supply chain or on its shipment of products from the Maracás Menchen Mine. However, the Company cautions that the potential future impact of any restrictions on the Company's operations, supply chain, sales efforts and logistics is currently unknown but could be significant.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

5) Amounts receivable

	December 31, 2020	December 31, 2019
Trade receivables (note 22(b))	\$ 13,749	\$ -
Current taxes recoverable – Brazil	5,214	5,920
Current taxes recoverable – Other	92	41
Other receivables	42	189
Total	\$ 19,097	\$ 6,150

6) Inventory

	December 31, 2020	December 31, 2019
Finished products	\$ 25,087	\$ 5,637
Work-in-process	775	2,018
Stockpiles	997	1,413
Warehouse materials	8,478	8,913
Total	\$ 35,337	\$ 17,981

During the year ended December 31, 2020, the Company recognized a net realizable value write-down of \$174 for warehouse materials (year ended December 31, 2019 – \$nil). At December 31, 2020, the net realizable value write-down was \$3 for finished products and \$174 for warehouse materials (note 24) (December 31, 2019 – \$nil and \$nil). As inventory is sold, previously recorded net realizable value write-downs are reclassified from inventory write-down to direct mine and mill costs or product acquisition costs as appropriate (note 24).

7) Vanadium products

The Company's off-take agreement with its former off-take partner expired at the end of April 2020. In connection with this and with the Company managing its own sales activities from May 1, 2020 onwards, the Company's vanadium products are accounted for as finished products inventory (note 6) effective from May 1, 2020. An assessment of net realizable value was performed on the transfer into inventory at May 1, 2020 that resulted in a write-down of \$649.

Prior to this, vanadium products were measured at fair value based on Level 2 fair value inputs. During the year ended December 31, 2020, the Company recognized other gains (losses) of \$1,636 (year ended December 31, 2019 – \$(1,360)), relating to realized and unrealized gains and losses on the purchases and sales of vanadium products.

8) Other intangible assets

During the year ended December 31, 2020, the Company acquired certain patent families (the "intellectual property") out of an assignment for the benefit of creditors under Massachusetts, U.S.A., law. The acquisition was completed through an asset purchase agreement, with the Company issuing 2,518 common shares and 3,622 common share purchase warrants as consideration. The transaction closed on December 7, 2020, with the common shares valued at \$2,243 (refer to note 14) and the common share purchase warrants valued at \$2,123 (refer to note 15) for a total consideration of \$4,366.

At December 31, 2020, the remaining estimated useful life is 10 years.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

	Intellectual Property	Total
COST		
Balance at December 31, 2018 and 2019	\$ -	\$ -
Additions	4,366	4,366
Balance at December 31, 2020	\$ 4,366	\$ 4,366
ACCUMULATED DEPRECIATION		
Balance at December 31, 2018 and 2019	\$ -	\$ -
Depreciation	-	-
Balance at December 31, 2020	\$ -	\$ -
NET BOOK VALUE		
At December 31, 2019	\$ -	\$ -
At December 31, 2020	\$ 4,366	\$ 4,366

9) Mine properties, plant and equipment

At December 31, 2020 and December 31, 2019, the Company's economic interest in the Maracás Menchen Mine totaled 99.94%. The remaining 0.06% economic interest is held by Companhia Baiana de Pesquisa Mineral ("CBPM") owned by the state of Bahia. CBPM retains a 3% net smelter royalty ("NSR") in the Maracás Menchen Mine. The property is also subject to a royalty of 2% on certain operating costs under the Brazilian Mining Act. Under a separate agreement, Anglo Pacific Plc receives a 2% NSR in the Maracás Menchen Mine.

The net book value of the Company's mine properties, plant and equipment at December 31, 2020 by geographic location is: Brazil – \$131,240 (December 31, 2019 – \$170,243); Canada – \$17,725 (December 31, 2019 – \$20,251).

	Office and Computer Equipment	Vehicles	Mine Properties	Machinery and Equipment	Construction In Progress	Total
COST						
Balance at December 31, 2018	\$ 887	\$ 349	\$ 94,067	\$ 169,882	\$ 5,043	\$ 270,228
Additions	234	-	8,475	6,282	26,597	41,588
Tax credits	-	-	-	(2,678)	-	(2,678)
Disposals	(98)	-	-	(2,686)	-	(2,784)
Reclassifications	-	-	-	21,319	(21,319)	-
Effects of changes in foreign exchange rates	(43)	(13)	(1,682)	(6,258)	(1,225)	(9,221)
Balance at December 31, 2019	\$ 980	\$ 336	\$ 100,860	\$ 185,861	\$ 9,096	\$ 297,133
Additions	115	-	9,049	2,421	8,174	19,759
Reclassifications	-	-	-	8,323	(8,323)	-
Effects of changes in foreign exchange rates	(176)	(75)	(18,465)	(42,862)	(639)	(62,217)
Balance at December 31, 2020	\$ 919	\$ 261	\$ 91,444	\$ 153,743	\$ 8,308	\$ 254,675

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

	Office and Computer Equipment	Vehicles	Mine Properties	Machinery and Equipment	Construction In Progress	Total
ACCUMULATED DEPRECIATION						
Balance at December 31, 2018	\$ 527	\$ 349	\$ 19,093	\$ 68,574	\$ -	\$ 88,543
Depreciation	102	-	6,400	17,119	-	23,621
Disposals	(98)	-	-	(2,686)	-	(2,784)
Effects of changes in foreign exchange rates	(8)	(13)	235	(2,955)	-	(2,741)
Balance at December 31, 2019	\$ 523	\$ 336	\$ 25,728	\$ 80,052	\$ -	\$ 106,639
Depreciation	89	-	5,939	16,136	-	22,164
Effects of changes in foreign exchange rates	(89)	(75)	(4,727)	(18,202)	-	(23,093)
Balance at December 31, 2020	\$ 523	\$ 261	\$ 26,940	\$ 77,986	\$ -	\$ 105,710
NET BOOK VALUE						
At December 31, 2019	\$ 457	\$ -	\$ 75,132	\$ 105,809	\$ 9,096	\$ 190,494
At December 31, 2020	\$ 396	\$ -	\$ 64,504	\$ 75,757	\$ 8,308	\$ 148,965

10) Leases

At December 31, 2020, the Company did not have any right-of-use assets or lease liabilities.

	Year ended	
	December 31, 2020	December 31, 2019
Recognized in the consolidated statements of income (loss) and comprehensive income (loss):		
Expenses relating to short-term leases	\$ 12,707	\$ 13,651
Recognized in the consolidated statements of cash flows:		
Total cash outflow for leases	\$ 10,916	\$ 12,546

11) Accounts payable and accrued liabilities

	December 31, 2020	December 31, 2019
Trade payables	\$ 32	\$ 67,325
Accounts payable	12,257	7,720
Accrued liabilities	2,572	2,363
Accrued financial costs	806	-
Other taxes	301	333
Total	\$ 15,968	\$ 77,741

12) Debt

	December 31, 2020	December 31, 2019
Total debt	\$ 24,788	\$ -

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2019	Cash flows Proceeds	Non-cash Foreign exchange movement	December 31, 2020
Total debt	\$ -	\$ 24,788	\$ -	\$ 24,788
Total liabilities from financing activities	\$ -	\$ 24,788	\$ -	\$ 24,788

	December 31, 2018	Cash flows Repayment	Non-cash Foreign exchange movement	December 31, 2019
Total debt ¹	\$ 92,812	\$ (92,812)	\$ -	\$ -
Total liabilities from financing activities	\$ 92,812	\$ (92,812)	\$ -	\$ -

1. The gross amount excludes unamortized deferred transaction costs.

Credit facilities

On March 18, 2020, the Company secured a \$13,000 credit facility with a bank in Brazil. This facility was fully drawn down and proceeds of R\$65,980 (\$13,000) were received on March 20, 2020. This facility is due to be repaid as a lump sum payment on March 12, 2021, together with accrued interest at a rate of 3.35% per annum.

On March 24, 2020 the Company secured a \$11,788 credit facility with a second bank in Brazil. This facility was fully drawn down and proceeds of R\$60,000 (\$11,788) were received on March 24, 2020. This facility is due to be repaid as a lump sum payment on March 18, 2021, together with accrued interest at a rate of 6.29% per annum.

Refer to note 25 for details of the settlement of the credit facilities subsequent to December 31, 2020.

Senior secured notes

On May 22, 2018, the Company completed a private placement of \$150,000 aggregate principal amount of senior secured notes due in 2021 (the "Notes"). The Notes were callable in years 2 and 3 and had an interest rate of 9.25% per annum, paid on a semi-annual basis in arrears on December 1 and June 1 each year, beginning on December 1, 2018. The terms of the Notes allowed the Company to redeem all or part of the Notes at varying redemption prices and established certain restrictive covenants.

On January 28, 2019 and February 19, 2019, the Company completed the purchase and cancellation of \$59,221 and \$4,490 in aggregate principal amounts of Notes outstanding. The Notes were purchased at a price equal to 105.625% per principal amount of the Notes redeemed plus accrued and unpaid interest up to January 28, 2019 and February 15, 2019, respectively. On May 3, 2019, the Company made an excess cash flow offer to purchase all of its outstanding Notes at that time of \$29,101 at a purchase price of 103% of the principal amount thereof plus accrued and unpaid interest to, but not including, the purchase date. The offer was required to be made in accordance with the terms of the Notes and following this offer, \$6,736 of the Notes were repurchased and cancelled.

On June 10, 2019, the Company announced that it had elected to redeem the remaining outstanding Notes. The Notes were redeemed on July 8, 2019 at a price equal to 104.625% of the principal amount of the Notes plus accrued and unpaid interest to, but not including, the redemption date. The total amount paid was \$23,606, including the principal amount of Notes outstanding of \$22,365, following which, the balance of the Notes outstanding was \$nil.

13) Provisions

a) Provision for litigation claims

By their nature, contingencies will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events. The assessment of contingencies inherently involves the exercise of significant judgments and estimates of the outcome of future events.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The Company, through its subsidiaries, is party to legal proceedings in the ordinary course of its operations. The Company's management, outside legal advisors, and other subject matter experts assess the potential outcome of these proceedings. Accordingly, the Company establishes provisions for future disbursements considered probable.

At December 31, 2020, based on developments in the respective hearings, the Company recognized a provision of \$928 (December 31, 2019 – \$1,189) primarily due to legal proceedings regarding labour matters. The outcome of each case remains dependent on the final judgment, which the Company does not expect to be delivered within the next 12 months. Refer to note 20.

b) Provision for environmental compensation

In accordance with the terms of the Company's environmental license for its Maracás Menchen Mine, the Company recognized a provision for future social and environmental compensation. Following the direction of the Secretary of the Environment for the state of Bahia, Brazil, the Company will be required to fund social or environmental projects. At December 31, 2020, the Company recognized a provision of \$368, with the full \$368 expected to be incurred within the next 12 months (December 31, 2019 – \$475 and \$475, respectively).

c) Provision for closure and reclamation

The following table presents the reconciliation of the beginning and ending aggregate carrying amount of the provision for closure and reclamation associated with the retirement of the Company's projects:

	Maracás Menchen Mine	Currais Novos Tungsten	Total
Balance at December 31, 2018	\$ 4,712	\$ 565	\$ 5,277
Changes in estimated cash flows and discount rates	957	20	977
Accretion	116	13	129
Effect of foreign exchange	(207)	(23)	(230)
Balance at December 31, 2019	\$ 5,578	\$ 575	\$ 6,153
Changes in estimated cash flows and discount rates	496	30	526
Accretion	149	13	162
Effect of foreign exchange	(1,338)	(136)	(1,474)
Balance at December 31, 2020	\$ 4,885	\$ 482	\$ 5,367

The Company makes a provision for the future cost of rehabilitating mine sites and related production facilities on a discounted basis on the development of mines or installation of those facilities. The rehabilitation provision represents the present value of estimated future rehabilitation costs relating to mine sites. These provisions have been created based on the Company's internal estimates. Assumptions, including an inflation rate of 3.25% (December 31, 2019 – 3.50%) and a nominal discount rate of 6.00% (December 31, 2019 – 6.50%), have been made which management believes are a reasonable basis upon which to estimate the future liability.

The provision for closure and reclamation of the Maracás Menchen Mine at December 31, 2020 is based on a total anticipated liability of R\$45,671 (\$8,787) (December 31, 2019 – R\$43,863 (\$10,882)) and is expected to be incurred between 2042 and 2046 (December 31, 2019 – between 2042 and 2046).

The provision for closure and reclamation of the Currais Novos Tungsten project at December 31, 2020 is based on an anticipated liability of approximately R\$2,768 (\$533) (December 31, 2019 – R\$2,657 (\$659)), with reclamation expected to be incurred between 2023 and 2027 (December 31, 2019 – between 2023 and 2027).

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

14) Issued capital

a) Authorized

Unlimited common shares without par value.

b) Issued

	Year ended December 31, 2020		Year ended December 31, 2019	
	Number of Shares	Stated Value	Number of Shares	Stated Value
Balance, beginning of the year	554,534	\$ 396,026	529,126	\$ 378,859
Exercise of warrants (note 15)	29,529	6,136	21,176	13,479
Exercise of share options (note 15)	805	626	3,248	2,062
Exercise of restricted share units (note 15)	403	1,183	984	1,626
Purchase consideration (note 8)	2,518	2,243	-	-
Balance, end of the year	587,789	\$ 406,214	554,534	\$ 396,026

15) Equity reserves

Under the Company's incentive share compensation plan, the Company has issued options and restricted share units ("RSUs") approximating 1.38% of its issued and outstanding capital at December 31, 2020.

The Company applies the fair value method of accounting for share-based payment awards. The Company estimated the expected volatility using historical volatilities from the Company's traded common shares when estimating the fair value of stock options granted, as it believes that this methodology best reflects the expected future volatility of its stock.

	RSUs		Options			Warrants			Total value
	Number	Value	Number	Weighted average exercise price	Value	Number	Weighted average exercise price	Value	
December 31, 2018	791	\$ 326	6,958	C\$ 0.82	\$ 4,030	146,202	C\$ 0.48	\$ 21,952	\$ 26,308
Share-based payments	-	1,050	-	-	-	-	-	-	1,050
Granted	1,017	1,878	370	3.04	637	-	-	-	2,515
Forfeited	(16)	(11)	-	-	-	-	-	-	(11)
Exercised	(984)	(1,626)	(3,248)	(0.52)	(793)	(37,616)	(0.64)	(4,771)	(7,190)
Expired	-	-	(933)	(2.28)	(1,154)	(484)	(0.65)	(70)	(1,224)
December 31, 2019	808	\$ 1,617	3,147	C\$ 0.96	\$ 2,720	108,102	C\$ 0.42	\$ 17,111	\$ 21,448
Share-based payments	-	458	-	-	-	-	-	-	458
Granted	1,914	441	3,828	0.67	774	3,622	1.30	2,123	3,338
Exercised	(403)	(1,183)	(805)	(0.70)	(209)	(26,793)	(0.33)	(2,320)	(3,712)
Expired	-	-	(200)	(0.46)	(47)	(1,272)	(0.65)	(159)	(206)
Forfeited	(63)	(4)	(88)	(0.67)	(31)	-	-	-	(35)
December 31, 2020	2,256	\$ 1,329	5,882	C\$ 0.83	\$ 3,207	83,659	C\$ 0.49	\$ 16,755	\$ 21,291

During the year ended December 31, 2020, the Company recognized a share-based payment expense related to the grant and vesting of share options and RSUs of \$1,638 (year ended December 31, 2019 – \$3,554) for share options and RSUs granted to the Company's directors, officers, employees and consultants. The total share-based payment expense was charged to operations.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

During the year ended December 31, 2020, 23,996 warrants were exercised resulting in proceeds to the Company of \$3,816, with a further 2,797 warrants surrendered as part of cashless exercises. 5,533 shares were issued in connection with a warrant exercise in 2019. In addition, 805 share options were exercised resulting in proceeds to the Company of \$417.

During the year ended December 30, 2020, the Company granted 3,622 (year ended December 31, 2019 – nil) warrants with a weighted average exercise price of C\$1.30. The estimated weighted average grant date fair value of the warrants was C\$0.75 per warrant, as determined using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 0.48%, expected life in years – 5, expected volatility – 88.0% and a foreign exchange rate of \$1 equals C\$1.2798.

During the year ended December 31, 2019, 26,709 warrants were exercised resulting in proceeds to the Company of \$8,708, with a further 10,907 warrants surrendered as part of cashless exercises. In addition, 3,248 share options were exercised resulting in proceeds to the Company of \$1,269.

a) RSUs

During the year ended December 31, 2020, the Company granted 1,914 RSUs to officers and employees of the Company and 63 RSUs were forfeited. These RSUs vest over time, with one-third of a grant of 1,799 RSUs vesting during each of the three month periods ending March 31, 2021, March 31, 2022 and March 31, 2023, and one-third of a grant of 115 RSUs vesting during each of the three month periods ending September 30, 2021, September 30, 2022 and September 30, 2023. The value of the vested RSUs includes the Company's expected forfeiture rate of 0%. Upon vesting, the RSUs provide the holders with common shares of the Company.

During the year ended December 31, 2019, the Company granted 1,017 RSUs to officers and employees of the Company and 16 RSUs were forfeited. These RSUs vest over time, with one-third vesting on each of January 11, 2020, January 10, 2021 and January 10, 2022. The value of the vested RSUs includes the Company's expected forfeiture rate of 0%. Upon vesting, the RSUs provide the holders with common shares of the Company.

b) Stock options

Range of prices	No. outstanding	No. exercisable	Weighted average remaining life (years)	Weighted average exercise price	Weighted average grant date share price
C\$ 0.46 – 1.00	5,277	2,288	3.2	C\$ 0.61	C\$ 0.61
2.01 – 2.50	285	285	2.6	2.40	2.40
3.01 – 3.04	320	320	3.0	3.04	3.04
	5,882	2,893			

During the year ended December 30, 2020, the Company granted 3,828 (year ended December 31, 2019 – 370) share options to its directors, officers, employees and consultants with a weighted average exercise price of C\$0.67. 750 of the share options vested immediately and are exercisable for a period of 5 years from the date of grant. The remainder vest over time, with one-third vesting during each of the three month periods ending March 31, 2021, March 31, 2022 and March 31, 2023. The estimated weighted average grant date fair value of the share options was C\$0.48 per stock option, as determined using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 0.74%, expected life in years – 5, expected volatility – 93.7%, expected dividends – 0% and expected forfeiture rate – 0%.

For the grant in the year ended December 31, 2019, the stock options vested immediately and are exercisable for a period of 5 years from the date of grant. The estimated weighted average grant date fair value of the stock options was C\$2.29 per stock option, as determined using the Black-Scholes valuation model and the following assumptions: risk free interest rate – 1.89%, expected life in years – 5, expected volatility – 94.2%, expected dividends – 0% and expected forfeiture rate – 0%.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

The remaining weighted average contractual life of options outstanding at December 31, 2020 was 3.2 years (December 31, 2019 – 1.9 years).

c) Warrants and broker warrants

No. outstanding	No. exercisable	Grant Date	Expiry Date	Exercise price	Expected volatility	Expected life (years)	Expected dividend yield	Risk-free Interest rate
25,731	25,731	29-Jan-16	28-Jan-21	C\$ 0.29	129%	5.00	0%	0.67%
39,342	39,342	2-Mar-16	2-Mar-21	C\$ 0.29	132%	5.00	0%	0.68%
3,488	3,488	1-Dec-17	1-Dec-22	C\$ 1.15	93%	5.00	0%	1.63%
11,476	11,476	13-Dec-17	13-Dec-22	C\$ 1.15	93%	5.00	0%	1.65%
3,622	3,622	7-Dec-20	8-Dec-25	C\$ 1.30	88%	5.00	0%	0.48%
83,659	83,659			C\$ 0.49				

16) Earnings (loss) per share

The weighted average number of basic and diluted shares outstanding for all periods presented in the consolidated statements of income (loss) and comprehensive income (loss) have been adjusted in order to reflect the effect of the share consolidation that was approved on March 1, 2021 and completed on March 4, 2021 (refer to note 25).

The total number of shares issuable from options, warrants and RSUs that are excluded from the computation of diluted earnings (loss) per share because their effect would be anti-dilutive was 1,919 for the year ended December 31, 2020 (year ended December 31, 2019 – 11,206).

17) Taxes

a) Tax (expense) recovery

	Year ended	
	December 31, 2020	December 31, 2019
Income tax expense	\$ (139)	\$ (864)
Deferred income tax (expense) recovery	(823)	(2,612)
Total	\$ (962)	\$ (3,476)

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 26.50% (2019 – 26.50%) were:

	Year ended	
	December 31, 2020	December 31, 2019
Net income (loss) before tax	\$ 7,723	\$ (23,494)
Expected income tax (expense) recovery based on statutory rate	(2,047)	6,226
Adjustments to expected income tax (expense) recovery:		
Permanent differences and other	(3,846)	(2,870)
Tax effect of unrecognized temporary differences and tax losses	1,873	(6,671)
Tax incentives and tax loss benefit not previously recognized	1,019	420
Effect of tax rates in foreign jurisdictions	290	(761)
Foreign exchange	1,749	180
Income tax expense	\$ (962)	\$ (3,476)

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

b) Changes in deferred tax assets and liabilities

	Year ended	
	December 31, 2020	December 31, 2019
Net deferred income tax asset, beginning of the year	\$ 10,571	\$ 13,863
Deferred income tax (expense)	(823)	(2,612)
Effect of foreign exchange	(2,570)	(680)
Net deferred income tax asset, end of the year	\$ 7,178	\$ 10,571

c) Deferred income tax balances

	December 31, 2020	December 31, 2019
Brazil		
Recognized deferred tax assets:		
Non-capital losses	\$ 16,505	\$ 21,946
Mine properties	777	828
Recognized deferred tax liabilities:		
Transitional tax regime	\$ (8,721)	\$ (9,221)
Provisions	(3,717)	(2,982)
	4,844	10,571
Canada		
Recognized deferred tax assets:		
Non-capital losses	\$ 2,334	\$ -
Net deferred income tax asset	\$ 7,178	\$ 10,571

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

	December 31, 2020	December 31, 2019
Canada		
Non-capital loss carry-forwards	\$ 52,658	\$ 68,131
Mine properties, plant and equipment	18,670	18,118
Capital losses and foreign exchange	11,992	7,991
Share issue costs	3,634	5,108
Ireland		
Non-capital loss carry-forwards	\$ 7,720	\$ 1,906
Mine properties, plant and equipment	86	91

The Company has approximately \$18,670 (December 31, 2019 – \$18,118) of Canadian development expenditures and \$777 (December 31, 2019 – \$828) of development costs in Brazil at December 31, 2020, which under certain circumstances can be used to reduce the taxable income of future years.

The non-capital losses in Brazil and Ireland carry forward indefinitely. The non-capital losses in Canada expire as follows:

Expiry date	Amount	Expiry date	Amount	Expiry date	Amount
2032	\$ 2,749	2035	\$ 142	2038	\$ 11,251
2033	4,029	2036	2,739	2039	13,654
2034	16,595	2037	3,826	2040	7
					\$ 54,992

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Deferred tax assets have only been recognized to the extent of the value of the deferred tax liabilities because it is not probable that the remaining temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the tax benefits can be utilized.

18) Related party transactions

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including any directors (executive and non-executive) of the Company. One of the directors, Ms. Koko Yamamoto, is a partner in an accounting firm that previously provided services to the Company. During the year ended December 31, 2020, an amount in accounting fees of \$nil (year ended December 31, 2019 –\$2) was billed and paid under normal payment terms.

During the year ended December 31, 2020, 16,022 shares were issued to funds managed by Arias Resource Capital Management LP (the "ARC Funds"), 5,533 in connection with a warrant exercise in 2019 and 10,489 in connection with a warrant exercise in 2020 (refer to note 15). Refer to note 25 for details of warrant exercises subsequent to December 31, 2020.

The remuneration of directors and other members of key management personnel during the period was as follows:

	Year ended	
	December 31, 2020	December 31, 2019
Short-term benefits	\$ 2,147	\$ 4,585
Share-based payments	1,275	2,775
Total	\$ 3,422	\$ 7,360

Refer to note 20 for additional commitments with management.

19) Segmented disclosure

The Company has four operating segments: sales & trading, mine properties, corporate and exploration and evaluation properties ("E&E properties"). Corporate includes the corporate team that provides administrative, technical, financial and other support to all of the Company's business units, as well as being part of the Company's sales structure.

The Company recognized revenues from customers of \$119,987 in the year ended December 31, 2020 (year ended December 31, 2019 –\$105,107). Of the total revenues from customers, \$64,512 is related to the Sales & trading segment (year ended December 31, 2019 –\$nil) and \$55,475 is related to the Mine properties segment (year ended December 31, 2019 –\$105,107) (after the elimination of inter-segment transactions). In the eight month period from May 1, 2020 to December 31, 2020, the Company's revenues are from transactions with multiple customers, including two customers who each represented more than 10% of revenues during that period. In the four month period to April 30, 2020 and in the year ended December 31, 2019, all of the Company's revenues are from transactions with a single customer.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

	Sales & trading	Mine properties	Corporate	E&E properties	Inter-segment transactions & other activities	Total
Year ended December 31, 2020						
Revenues	\$ 64,512	\$ 126,750	\$ 74,553	\$ -	\$ (145,828) ¹	\$ 119,987
Other gains (losses)	1,636	-	-	-	-	1,636
Operating costs	66,148	126,750	74,553	-	(145,828)	121,623
Professional, consulting and management fees	(65,429)	(93,524)	(71,275)	-	141,838 ¹	(88,390)
Foreign exchange gain (loss)	(1,274)	(3,086)	(3,188)	-	(707) ²	(8,255)
Other general and administrative expenses	44	(15,943)	6,835	-	-	(9,064)
Share-based payments	(473)	(1,669)	(1,082)	-	(105) ²	(3,329)
Finance costs	-	-	(1,638)	-	-	(1,638)
Interest income	(17)	(1,325)	(8)	-	-	(1,350)
Exploration and evaluation costs	-	601	547	-	-	1,148
	-	(2,958)	-	(64)	-	(3,022)
	(67,149)	(117,904)	(69,809)	(64)	141,026	(113,900)
Net income (loss) before tax	(1,001)	8,846	4,744	(64)	(4,802)	7,723
Income tax (expense)	(15)	(124)	-	-	-	(139)
Deferred income tax (expense) recovery	-	(3,157)	2,334	-	-	(823)
Net income (loss)	\$ (1,016)	\$ 5,565	\$ 7,078	\$ (64)	\$ (4,802)	\$ 6,761
At December 31, 2020						
Total non-current assets	\$ 9	\$ 136,082	\$ 20,052	\$ -	\$ 4,366 ²	\$ 160,509
Total assets	\$ 49,010	\$ 213,619	\$ 106,779	\$ 25	\$ (71,627) ³	\$ 297,806
Total liabilities	\$ 41,968	\$ 45,320	\$ 34,352	\$ -	\$ (70,998) ¹	\$ 50,642

1. Elimination of inter-segment transactions.
2. Amounts relating to Largo Clean Energy Corp., which is not an operating segment.
3. Inter-segment transaction elimination of \$76,498 partially offset by Largo Clean Energy Corp. total assets of \$4,871.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

	Sales & trading	Mine properties	Corporate	E&E properties	Inter-segment transactions & other activities	Total
Year ended December 31, 2019						
Revenues	\$ -	\$ 105,107	\$ -	\$ -	\$ -	\$ 105,107
Other gains (losses)	-	-	(1,360)	-	-	(1,360)
	-	105,107	(1,360)	-	-	103,747
Operating costs	-	(92,950)	-	-	-	(92,950)
Professional, consulting and management fees	-	(4,513)	(5,466)	-	-	(9,979)
Foreign exchange loss	-	(1,551)	(4,460)	-	-	(6,011)
Other general and administrative expenses	-	(859)	(2,325)	-	-	(3,184)
Share-based payments	-	-	(3,554)	-	-	(3,554)
Finance costs	-	(211)	(13,481)	-	-	(13,692)
Interest income	-	3,278	1,635	-	-	4,913
Exploration and evaluation costs	-	(2,491)	-	(293)	-	(2,784)
	-	(99,297)	(27,651)	(293)	-	(127,241)
Net income (loss) before tax	-	5,810	(29,011)	(293)	-	(23,494)
Income tax recovery	-	(864)	-	-	-	(864)
Deferred income tax recovery	-	(2,612)	-	-	-	(2,612)
Net income (loss)	\$ -	\$ 2,334	\$ (29,011)	\$ (293)	\$ -	\$ (26,970)
At December 31, 2019						
Total non-current assets	\$ -	\$ 180,813	\$ 20,252	\$ -	\$ -	\$ 201,065
Total assets	\$ -	\$ 239,402	\$ 118,202	\$ 57	\$ -	\$ 357,661
Total liabilities	\$ -	\$ 84,634	\$ 924	\$ -	\$ -	\$ 85,558

20) Commitments and contingencies

At December 31, 2020, the Company was party to certain management and consulting contracts. Minimum commitments under the agreements are approximately \$2,455 and all payable within one year. These contracts also require that additional payments of up to approximately \$3,682 be made upon the occurrence of certain events such as change of control. As the triggering event has not occurred, the contingent payments have not been reflected in these consolidated financial statements.

In 2008, Largo agreed to sell 100% of its vanadium production under an off-take agreement which, following the election by the Company, expired at the end of April 2020. The Company has entered into a number of contracts with third party customers to deliver monthly quantities of the Company's vanadium products. A significant proportion of the Company's monthly vanadium production in 2021 has been committed.

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 has made payments 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.

The Company is committed to a minimum amount of rental payments under five leases of office space which expire between October 31, 2021 and December 31, 2023. Minimum rental commitments remaining under the

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

leases are approximately \$598, including \$277 due within one year. In addition, minimum rental commitments remaining under other short-term leases are approximately \$12, all due within one year.

At the Company's Maracás Menchen Mine, the Company has entered into purchase order contracts with remaining amounts due related to goods not received or services not rendered as of December 31, 2020 of \$10,925.

The Company, through its subsidiaries, is party to legal proceedings in the ordinary course of its operations related to legally binding agreements with various third parties under supply contracts and consulting agreements. At December 31, 2020 two such proceedings were ongoing, each in Brazil. The first relates to a supply agreement for the Maracás Menchen Mine which was filed with the courts in October 2014. The amount claimed totals R\$9,900 (\$1,905), with a counterclaim filed by Vanádio for R\$10,700 (\$2,059). A provision of R\$1,281 (\$247) has been recognized at December 31, 2020 for the probable loss (December 31, 2019 – R\$1,324 (\$329)). The second proceeding relates to a consulting agreement dispute for which R\$3,900 (\$750) (December 31, 2019 – R\$3,900 (\$968)) has been claimed against two of the Company's subsidiaries. No provision has been recognized for this proceeding. The Company and its subsidiaries are also party to legal proceedings regarding labour matters. A provision was recorded at December 31, 2019 for such proceedings in an amount of R\$3,468 (\$860). At December 31, 2020, the provision recognized was R\$3,538 (\$681). The outcome of these proceedings remains dependent on the final judgment, which the Company does not expect to be delivered within the next 12 months. Management does not expect the outcome of any of the remaining proceedings to have a materially adverse effect on the results of the Company's financial position or results of operations. Should any losses result from the resolution of these claims and disputes, they will be charged to operations in the period that they are determined.

21) Capital management

The Company is a production stage entity with one operating asset in Brazil. The Company manages its capital to ensure that it will be able to continue to meet its financial and operational strategies and obligations, whilst maximizing the return to shareholders.

In the management of capital, the Company includes the components of shareholders' equity and debt. The Company manages the capital structure and makes adjustments thereto in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust its capital structure, the Company may attempt to issue new shares, acquire or dispose of assets, attempt to obtain additional debt financing or repay debt facilities.

There were no changes in the Company's capital management strategy during the year ended December 31, 2020 compared to the previous year.

22) Financial instruments

Financial assets and financial liabilities at December 31, 2020 and December 31, 2019 were as follows:

	December 31, 2020	December 31, 2019
Cash	\$ 79,145	\$ 127,499
Restricted cash	-	76
Amounts receivable	13,791	189
Accounts payable and accrued liabilities	15,968	77,741
Debt	24,788	-

Refer to the liquidity risk discussion below regarding liabilities.

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 year.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

a) Fair value

IFRS requires that the Company disclose information about the fair value of its financial assets and liabilities. Fair value estimates are made 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 fair value hierarchy categorizes into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly such as those derived from prices.
- Level 3 inputs are unobservable inputs for the asset or liability.

At December 31, 2020 and December 31, 2019, trade receivables with the Company's former off-take partner are classified as financial assets at FVTPL and are measured at fair value. The valuation of these trade receivables is classified within Level 2 of the fair value hierarchy as they were measured using observable vanadium market transaction data as reported by a recognized provider of global metal prices. The valuation of trade receivables with the Company's former off-take partner at December 31, 2019 resulted in a liability position. Accordingly, this balance was classified as trade payables (refer to note 11).

The carrying amounts for cash, restricted cash, other trade receivables and amounts receivable, accounts payable and accrued liabilities (excluding trade payables) and debt in the consolidated statements of financial position approximate fair values because of the limited term of these instruments. Refer to note 25 for details of the settlement of debt subsequent to December 31, 2020.

There have been no changes in the classification of financial instruments in the fair value hierarchy since December 31, 2019. The Company does not have any financial instruments measured using Level 3 inputs. The Company does not offset financial assets with financial liabilities and there were no transfers between Level 1 and Level 2 input financial instruments.

b) Credit risk

The Company's credit risk is primarily attributable to cash and amounts receivable.

The Company minimizes its credit risk with respect to cash by placing its funds on deposit with the highest rated banks in Canada, Ireland and Brazil. Financial instruments included in amounts receivable consist primarily of receivables from unrelated companies. Sales to customers outside of Brazil are protected either by the Company's credit insurance policies, which establishes credit limits for each customer, or by the Company requiring letters of credit or up-front payment prior to delivery occurring.

Of the total trade receivables balance of \$13,749, \$7,389 relates to customers in Brazil, which are not covered by the Company's credit insurance policies. These three customers are predominantly AAA rated companies in Brazil. The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables.

To measure expected credit losses, trade receivables are grouped based on risk characteristics and due dates. At December 31, 2020, no amounts are past due and in the year-ended December 31, 2020, the Company has not experienced any credit losses. At December 31, 2020, the loss allowance for trade receivables was

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

determined to be \$51 (December 31, 2019 – \$nil) and is recognized as a component of finance costs (note 24). There have been no write offs of trade receivables.

c) Liquidity risk

The following table details the Company's expected remaining contractual cash flow requirements at December 31, 2020 for its financial liabilities with agreed repayment periods.

	Less than 6 months	6 months to 1 year	1 to 3 years	Over 3 years
Accounts payable and accrued liabilities (note 11)	\$ 15,968	\$ -	\$ -	\$ -
Debt (note 12)	24,788	-	-	-
	\$ 40,756	\$ -	\$ -	\$ -

The Company's principal sources of liquidity are its cash flow from operating activities and cash of \$79,145 (December 31, 2019 – \$127,499). Refer to note 25 for details of the settlement of debt subsequent to December 31, 2020.

d) Market risk

Interest rate risk

The Company's exposure to a rise in interest rates is limited to that portion of its total debt that is subject to floating interest rates. At December 31, 2020, the Company's debt is subject to fixed interest rates and the Company does not have any exposure to floating interest rates.

Foreign currency risk

At December 31, 2020, the Company's outstanding debt is 100% denominated in U.S. dollars (December 31, 2019 – no outstanding debt facilities).

The impact of fluctuations in foreign currency on cash balances and debt relates primarily to fluctuations between the U.S. dollar, the Canadian dollar, the Brazilian real and the Euro. At December 31, 2020 the Company's U.S. dollar functional currency entities had cash denominated in Canadian dollars and Euros and the Company's Brazilian real functional currency entities had cash and debt denominated in U.S. dollars.

A 5% change in the value of the Canadian dollar and the Euro relative to the U.S. dollar would affect the value of these cash balances at December 31, 2020 by approximately \$842. A 5% change in the value of the Brazilian real relative to the U.S. dollar would affect the value of Brazilian real cash balances by approximately \$292.

Price risk

The Company does not have any financial instruments with significant exposure to price risk. Following the recognition of trade receivables on the recognition of revenue, there is no significant remeasurement related to price risk. Previously, the Company's only financial instrument that was susceptible to price risk was its trade receivables / payables with its former off-take partner, which could vary with the market price of vanadium for products sold that had not yet had the final selling price determined in accordance with the off-take agreement in force at the time of sale. At December 31, 2020 all amounts had the final selling price determined.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

23) Revenues

	Year ended	
	December 31, 2020	December 31, 2019
Vanadium sales from contracts with customers	\$ 121,008	\$ 207,928
Re-measurement of trade receivables / payables	(1,021)	(102,821)
Total	\$ 119,987	\$ 105,107

24) Expenses

	Year ended	
	December 31, 2020	December 31, 2019
Operating costs:		
Direct mine and production costs	\$ 48,929	\$ 63,156
Conversion costs	1,976	-
Product acquisition costs	10,459	-
Royalties	7,107	5,947
Distribution costs	2,269	-
Inventory write-down	177	-
Depreciation and amortization	17,473	23,847
	\$ 88,390	\$ 92,950
Other general and administrative expenses:		
Shareholder and regulatory	\$ 245	\$ 850
Travel	203	824
Donations	874	221
Occupancy	282	255
Information technology	307	64
Technology licenses and costs	98	-
Amortization	34	24
Office and other	1,286	946
	\$ 3,329	\$ 3,184
Finance costs:		
Interest expense	\$ 1,137	\$ 6,800
Accretion	162	6,892
Loss allowance for trade receivables	51	-
	\$ 1,350	\$ 13,692
Employee compensation amounts included in the consolidated statements of income (loss):		
Compensation	\$ 4,554	\$ 5,846
Share-based payments	1,638	3,554
	\$ 6,192	\$ 9,400

25) Subsequent events

Settlement of debt

On February 3, 2021, the Company completed the settlement of the outstanding credit facilities through the repayment in full of the outstanding principal amount of \$24,788. Interest of \$891 and a break fee of \$74 were also paid as part of the settlement.

LARGO RESOURCES LTD.

Expressed in thousands / 000's of U.S. dollars and shares (except per share information)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Exercise of warrants

Subsequent to December 31, 2020, and prior to the share consolidation, 56,912 warrants were exercised resulting in proceeds to the Company of \$3,017, with a further 8,092 warrants surrendered as part of cashless exercises. Included in this were exercises of 54,586 warrants by the ARC Funds for 46,497 shares, including 8,089 warrants surrendered as part of this cashless exercise.

Share consolidation

On March 1, 2021, the consolidation of the Company's issued and outstanding common shares on the basis of up to one post-consolidation common share for every 10 pre-consolidation common shares was approved by the Company's shareholders at a special meeting of shareholders.

On March 4, 2021, the Company completed the consolidation of its common shares on the basis of one post-consolidation common share for every 10 pre-consolidation common shares. This also includes RSUs, stock options and warrants of the Company. Any quantity relating to these instruments for 2020 and 2019 and up to March 4, 2021 or any per unit price such as exercise prices disclosed throughout the consolidated financial statements have not been retrospectively adjusted for the share consolidation except for the weighted average number of shares outstanding used in the calculation of basic and diluted earnings (loss) per share, which have been retrospectively adjusted to give effect to the share consolidation as required by IAS 33, Earnings per share. Consequently, the basic and diluted earnings (loss) per share for the periods presented have been retrospectively adjusted.

The effect of the share consolidation on the issued and outstanding number of common shares, RSUs, stock options and warrants at December 31, 2020 is as follows:

	Balance before consolidation	Balance after consolidation
Common shares	587,789	58,779
RSUs	2,256	226
Stock options	5,882	588
Warrants	83,659	8,366