

LARGO RESOURCES LTD.

Annual consolidated financial statements for the

years ended December 31, 2013 and 2012

(Expressed in thousands / 000's of Canadian dollars)

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Largo Resources Ltd.

We have audited the accompanying consolidated financial statements of Largo Resources Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of loss and comprehensive loss, consolidated statements of cash flows and consolidated statements of changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Largo Resources Ltd. and its subsidiaries as at December 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

McGOVERN, HURLEY, CUNNINGHAM, LLP



Chartered Accountants
Licensed Public Accountants

TORONTO, Canada
April 28, 2014

LARGO RESOURCES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in thousands of Canadian dollars)

As at	Notes	December 31, 2013 $	December 31, 2012 $
ASSETS			
Current assets:			
Cash		**17,009**	2,144
Restricted cash	**20**	**16,012**	54,223
Amounts receivable		**1,911**	470
Concentrate inventory		**299**	257
Prepaid expenses		**1,674**	2,124
Total current assets		**36,905**	59,218
Non-current assets:			
Deferred transaction costs		**1,347**	6,000
Property, plant and equipment	**4**	**184,919**	43,373
Equipment deposits	**5**	**202**	11,214
Development properties	**6,12**	**121,922**	98,723
Exploration and evaluation properties	**7,12**	**23,429**	23,388
Total assets		**368,724**	241,916
Current liabilities:			
Accounts payable and accrued liabilities	**9,17**	**15,657**	8,244
Current portion of long term debt	**8(a)**	**13,962**	-
Promissory note	**8(b)**	**-**	1,459
Total current liabilities		**29,619**	9,703
Long term liabilities:			
Long term debt	**8**	**148,137**	48,722
Provision for closure and reclamation	**10**	**3,244**	1,984
Other long term liabilities		**660**	1,297
Total liabilities		**181,660**	61,706
SHAREHOLDERS' EQUITY			
Issued capital	**11**	**232,243**	208,997
Equity reserves	**12**	**26,034**	28,147
Accumulated other comprehensive loss		**(13,821)**	(5,570)
Deficit		**(57,392)**	(51,364)
Total shareholders' equity		**187,064**	180,210
Total liabilities and shareholders' equity		**368,724**	241,916

Commitments and contingencies (Notes 1, 6, 7, 8 and 18)
Subsequent events (Note 7(a) and 21)
The accompanying notes are an integral part of these consolidated financial statements.

APPROVED ON BEHALF OF THE BOARD

Signed "Wayne Egan", Director

Signed "Mark Brennan", Director

LARGO RESOURCES LTD.

CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

(Expressed in thousands of Canadian dollars and shares, except per share amounts)

Years ended December 31,	Notes	2013 $	2012 $
Expenses			
Professional, consulting and management fees	**17**	**2,375**	1,964
Other general and administrative expenses	**17**	**1,198**	1,560
Share-based payments	**12**	**1,556**	30
Foreign exchange loss (gain)		**4,884**	(321)
Other losses	**18**	**2,058**	1,048
Finance income		**(495)**	(43)
Finance costs		**-**	21
Loss before the undernoted		**11,576**	4,259
Loss on amendment to subscription receipts	**12**	**-**	15,997
Write down of assets	**6**	**-**	3,827
Write off of equipment deposits	**5**	**-**	1,130
Net loss		**11,576**	25,213
Other comprehensive loss			
Items that will subsequently reclassified to operations:			
Unrealized loss on foreign currency translation		**8,251**	5,570
Comprehensive loss for the year		**19,827**	30,783
Loss per share			
Basic and Diluted	**14**	**0.01**	0.05
Weighted average number of shares outstanding:			
Basic and Diluted (in 000's)		**896,059**	670,106

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

LARGO RESOURCES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in thousands of Canadian dollars)

Years ended December 31,	Notes	2013 $	2012 $
CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES			
Net loss for the year		**(11,576)**	(25,213)
Adjustment for non-cash items			
Depreciation		**33**	62
Share-based payments	**12**	**1,556**	30
Other losses		**2,058**	1,167
Write off of equipment deposits		**-**	1,130
Write down of assets			3,827
Finance income		**(469)**	-
Unrealized foreign exchange loss		**4,513**	-
Loss on amendment to subscription receipts		**-**	15,997
Cash used before non-cash working capital items		**(3,416)**	(3,000)
Change in amounts receivable		**1**	(238)
Change in concentrate inventory		**(42)**	392
Change in prepaid expenses		**45**	28
Change in accounts payable and accrued liabilities		**155**	(82)
Net cash (used in) operating activities		**(3,885)**	(2,900)
FINANCING ACTIVITIES			
Promissory note		**(1,564)**	(2,778)
Bridge loan		**-**	11,768
Proceeds of long-term debt	**8**	**113,853**	52,278
Transaction costs, long-term debt		**-**	(6,908)
Repayment of long-term debt		**-**	(10,657)
Interest and guarantee fee paid		**(8,089)**	(6,426)
Issuance of common shares	**11**	**23,382**	24,000
Conversion of subscription receipts		**-**	74,428
Repayment of subscription receipts		**-**	(74)
Costs of issuance of common shares, warrants and subscription receipts		**(136)**	(487)
Net cash provided by financing activities		**127,446**	135,144
INVESTING ACTIVITIES			
Investment in development and exploration and evaluation properties		**(23,463)**	(32,690)
Equipment expenditures		**(123,025)**	(50,160)
Decrease (increase) in restricted cash		**38,211**	(54,222)
Proceeds on disposition of assets		**-**	50
Net cash (used in) investing activities		**(108,277)**	(137,022)
Effect of foreign exchange on cash		**(578)**	(502)
Change in cash		**14,865**	(5,280)
Cash, beginning of the year		2,144	7,424
Cash, end of the year		**17,009**	2,144
Other items	**15**		

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

LARGO RESOURCES LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in thousands of Canadian dollars and shares, except per share information)

	Number of shares	Issued Capital $	Equity reserves $	Accumulated other comprehensive loss $	Deficit $	Total shareholders' equity $
Balance, December 31, 2012	869,593	208,997	28,147	(5,570)	(51,364)	180,210
Private placement, net of costs	112,747	23,246	-	-	-	23,246
Expiry of share options	-	-	(5,477)	-	5,477	-
Forfeiture of share options	-	-	(71)	-	71	-
Share-based payments	-	-	3,435	-	-	3,435
Currency translation adjustment	-	-	-	(8,251)	-	(8,251)
Loss for the year	-	-	-	-	(11,576)	(11,576)
Balance, December 31, 2013	**982,340**	**232,243**	**26,034**	**(13,821)**	**(57,392)**	**187,064**

Balance, December 31, 2011	464,541	109,290	15,938	-	(27,956)	97,272
Private placement, net of costs	109,091	23,747	-	-	-	23,747
Value of warrants granted on private placements	-	(5,074)	5,074	-	-	-
Conversion of subscription receipts	295,511	73,878	-	-	-	73,878
Value of warrants granted on conversion of subscription receipts	-	(9,852)	9,852	-	-	-
Exercise of share options	450	53	-	-	-	53
Valuation allocation on exercise of share options	-	33	(33)	-	-	-
Expiry of share options and warrants	-	-	(1,790)	-	1,790	-
Forfeiture of share options	-	-	(15)	-	15	-
Share-based payments	-	-	46	-	-	46
Loss on amendment to subscription receipts	-	-	15,997	-	-	15,997
Valuation allocation on conversion of subscription receipts		16,922	(16,922)	-	-	-
Currency translation adjustment	-	-	-	(5,570)	-	(5,570)
Loss for the year	-	-	-	-	(25,213)	(25,213)
Balance, December 31, 2012	869,593	208,997	28,147	(5,570)	(51,364)	180,210

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Largo Resources Ltd. (the "Company") is engaged in the acquisition, exploration and development of exploration and evaluation properties located in Brazil and Canada. Substantially, all of the Company's efforts are devoted to financing and developing these properties. While certain of the Company's properties have reached advanced stages of development, and production decisions have been made, future changes in market conditions and feasibility estimates could result in the Company's mineral resources not being economically recoverable.

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

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

The Company has a need for equity capital and financing for working capital and exploration and development of its properties. Because of continuing operating losses, the Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operations. See Notes 8 and 21.

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

The Company's shares are listed on the TSX Venture Exchange. The head office, principal address and records office of the Company are located at 55 University Avenue, Suite 1101, Toronto, Ontario, Canada M5J 2H7.

2. STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB"). IFRS comprises IFRSs, International Accounting Standards ("IASs"), and interpretations issued by the IFRS interpretations committee ("IFRICs"). The consolidated financial statements were approved by the Board of Directors of the Company on April 28, 2014.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

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

These consolidated financial statements are presented in thousands of Canadian dollars, unless otherwise noted.

(i) Principles of Consolidation

Subsidiaries

Subsidiaries are entities over which the Company has control. Control exists when the Company is exposed or has rights to the variable returns from the subsidiary and has the ability to affect those returns through its power over the subsidiary. Power is defined as existing rights that give the Company the ability to direct the relevant activities of the subsidiary. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control is transferred to the Company to the date control ceases.

The consolidated financial statements include the financial statements of the Company and its subsidiaries and their respective ownership listed in the following table:

Largo Mineracao Ltda. (Brazil)	100%
Mineracao Currais Novos Ltda. (Brazil)	100%
Companhia de Maracás (Brazil)	100%
Vanadio de Maracás S.A. . (Brazil)	99.7%
Metais Nao Ferrosos da Bahia Ltda. (Brazil)	100%
Largo Resources (Yukon) Ltd. (Canada)	100%

The financial statements of subsidiaries are prepared for the same reporting periods as the Company, using consistent accounting policies. Where necessary, adjustments are made to bring the accounting policies of the Company's subsidiaries in line with those of the Company. All intercompany balances and transactions have been eliminated upon consolidation.

(ii) Significant accounting policies

(a) 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.

(b) Concentrate Inventory

Inventory consists of stockpiled concentrate. Inventory is valued at the lower of average cost or net realizable value. The cost of in-process metals and stock-piled ore include the costs of raw materials, direct labour, mine-site overhead expenses, and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price less estimated future production costs to convert the inventories into saleable form. In-process inventory represents materials that are currently in the process of being converted into finished goods. The average cost of finished goods represents the average cost of in-process inventories incurred prior to the refining process, plus applicable refining costs. As at December 31, 2013 and December 31, 2012 inventory is presented at net realizable value.

(c) Foreign currency translation

The consolidated financial statements are presented in Canadian dollars which is the functional and reporting currency of the Company. The functional currency of the subsidiaries through which the Company conducts its operations varies depending upon the primary economic environment in which they operate.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised 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 profit or 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;

- 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.

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

The financial statements of subsidiaries that do not have the Canadian dollar as the functional currency are translated into Canadian 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 of 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 as foreign currency translation adjustments.

During 2012, as a result of the changed economic circumstances due to the receipt of the Brazilian debt facility (Note 8), the Company concluded that the Brazilian Real ("R$") was the most appropriate functional currency for the operations carried out in the companies associated with the Maracás Vanadium project. Effective July 1, 2012, Largo Mineracao Ltda., Companhia de Maracás, Vanadio de Maracás S.A. and Metais Nao Ferrosos da Bahia Ltda, changed their functional currency from the Canadian dollar to the Brazilian Real. Accordingly, the Company applied the translational procedures applicable to the new functional currency prospectively from the date of the change as required under IAS 21.

(d) 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 transactions are set out in Note 12.

The fair value determined at the grant date of the equity-settled share-based payments is expensed 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.

(e) 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 profit or loss in the period in which they are incurred.

(f) Finance costs

Finance costs comprise interest payable on borrowings and accretion of long-term debt all calculated using the effective interest rate method.

(g) Mineral exploration, evaluation and development properties

i. Exploration and evaluation properties

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized to exploration and evaluation properties. Exploration and evaluation expenditures 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 recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project net of any impairment provisions are written off.

ii. 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 re-classified as a development property. 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.

The Company has two development projects located in Brazil: Maracás Vanadium and Currais Novos Tungsten. As at December 31, 2013, Maracás is in the construction phase and the Company had secured an off-take partner in Europe. There is no revenue or cash flows generated from this project. Currais Novos completed the construction phase and it is now in the commissioning phase.

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.

iii. Mine properties, plant and equipment

Upon completion of mine construction, the assets are transferred into mine properties, plant and equipment. Items of property, 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 the asset. The capitalized value of a finance lease is also included within property, 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, underground mine development or mineable reserve development.

iv. Depletion

Accumulated mine development costs are depleted on a unit-of-production basis over the estimated economically recoverable reserves of the mine concerned.

(h) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire or construct an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use.

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

Property, plant and equipment are depreciated over the estimate useful lives of the assets on the declining balance basis using the following annual rates:

Computers	20%	Machinery and equipment	10%
Office equipment	10%	Vehicles	20%

Construction in progress costs are not depreciated as they are not currently available for use.

(i) Impairment of non-financial assets

The carrying values of capitalized exploration and evaluation properties, development properties and property, plant and equipment are assessed 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 to sell for the asset and the asset's value in use.

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 geographical basis.

If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to the consolidated statement of 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 estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. 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 loss.

(j) Taxation

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in the consolidated statement of comprehensive loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive loss.

i. 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 to the previous years.

ii. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the 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 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.

(k) 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. Measurement in subsequent periods is dependent upon the classification of the financial instrument.

The Company classifies its financial instruments in the following categories:

i. Financial assets at a fair value through profit or loss (“FVTPL”)

A financial asset is classified as FVTPL if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognized initially at fair value plus directly attributable transaction costs.

The Company’s financial assets include cash, restricted cash, and financial instruments included in amounts receivable and are all classified as loans and receivables.

ii. Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (“EIR”), less impairment. 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. The EIR amortization is included in finance income in the consolidated statement of loss. The losses arising from impairment are recognized in the consolidated statement of loss.

iii. Derecognition

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
  (a) the Company has transferred substantially all the risks and rewards of the asset; or
  (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

For financial assets carried at amortized cost, the Company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the consolidated statement of loss.

i. Financial liabilities

- *Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, other financial liabilities, derivatives are also included in this category unless they are designated as hedging.

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of other financial liabilities, plus directly attributable transaction costs.

The Company's financial liabilities include accounts payable and accrued liabilities, long-term debt and other long term liabilities and are all classified as other financial liabilities. The Company has also entered into foreign currency contracts which as classified as derivatives. To date, the Company has not designated any derivatives as a hedging instrument. Accordingly, derivatives have been classified as financial liabilities through profit and loss.

- *Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

After initial recognition, other financial liabilities are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in the consolidated statement of loss when the liabilities are derecognized, as well as through the EIR amortization process. 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. The EIR amortization is included in borrowing costs capitalized to development properties, exploration and evaluation properties, and property, plant and equipment.

Financial liabilities through profit and loss, including derivatives are subsequently measured at fair value.

- *Derecognition*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. 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 loss.

- *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.

(l) Provisions

i. General

Provisions are recognised 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 statements of 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 recognised as a finance cost.

ii. 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 dams, 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 loss as a finance cost. 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 loss.

(m) Loss per share

Loss per share is based on the weighted average number of common shares of the Company outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding share options and warrants, 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 for the periods presented as the effects of including all convertible securities would be anti-dilutive.

(n) Operating Segments

The Company is engaged in mining, exploration and development of mineral properties, primarily in Brazil and Canada. 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 development operations segment and exploration and evaluation segment.

(iii) 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 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 financial statements.

The following are the critical judgments and areas involving estimates, that management have 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.

(a) Capitalization of development and exploration and evaluation costs

Management has determined that development and exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgement, management has assessed various sources of information including but not limited to the geological and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. See Notes 6 and 7 for details of capitalized development and exploration and evaluation costs.

(b) Determination of mineral reserve 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. The assessment involves geological and geophysical studies and economic data and the reliance on a number of assumptions. The estimates of the reserves 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 estimates, or the impact of economic factors such as changes in the price of commodities or the cost of components of production.

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

(c) Valuation of development properties, exploration and evaluation properties and property, plant and equipment

The Company carries its development properties, exploration and evaluation properties and property, plant and equipment at cost less any provision for impairment.

The Company undertakes a review of the carrying values of development properties, exploration and evaluation properties and property, plant and equipment 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 discounted net cash flows. 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, metal prices, foreign exchange rates, reserve and resource quantities, future operating and capital costs 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 development and exploration and evaluation properties and property, plant and equipment (See Notes 4,6 and 7).

(d) Estimation of provision for environmental rehabilitation

The Company has obligations for environmental rehabilitation related to its 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 in 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 assets 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.

(e) Production stage of a mine

The determination of the date on which a mine enters the production stage is a significant judgment since capitalization of certain costs ceases upon entering production. As a mine is constructed, costs incurred are capitalized and proceeds from metal sales are offset against the capitalized costs. This continues until the mine is available for use in the manner intended by management, which requires significant judgment in its determination.

The timing of the completion of project construction, commissioning and commencement of commercial production and generation of revenues cannot be determined with certainty.

(f) Taxes, income taxes 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.

(g) Share-based payments

Management determines costs for share-based payments and the expense associated with the subscription receipts amendments (see Note 12) using the Black-Scholes option pricing model. The fair value of the market-based and performance-based share awards are determined at the date of grant and incorporates certain input assumption's including the expected future volatility of the stock price, expected dividend yield, and expected life. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

(h) Functional currency

Determination of functional currency involves significant judgment and other mining companies may make different judgments based on similar facts. For many of the Company's subsidiaries, their functional currency is the currency of the country in which they operate. The Company reconsiders the functional currency of its entities if there is a change in the underlying transactions, events and conditions which determine their primary economic environment.

The determination of functional currency affects the carrying value of non-current assets included in the statement of financial position and, as a consequence, the amortization of those assets included in the income statement. It also impacts exchange gains and losses included in the income statement and in equity.

(i) Contingencies

Refer to Notes 1, 6, 7 and 18.

(iv) Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013.

- IFRS 10, Consolidated Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are special purpose entities in the scope of SIC 12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. The Company determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of the Company's subsidiaries.

- IFRS 12, Disclosure of Interest in Other Entities ("IFRS 12") was issued in May 2011 and creates a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. IFRS 12 requires enhanced reporting of the nature of risks associated with the Company's interest in other entities and the effects of those interests on the Company's consolidated financial statements. The Company assessed its disclosures and concluded that the adoption of IFRS 12 did not result in any material change in disclosures in the consolidated financial statements.

- IFRS 13, Fair Value Measurement ("IFRS 13") was issued in May 2011 and provides a single source of guidance on how to measure fair value where its use is already required or permitted by other IFRS and enhances disclosure requirements for information about fair value measurements. The adoption if IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at the adoption date.

- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine ("IFRIC 20") was issued by the IASB to address accounting issues regarding waste removal cost incurred in surface mining activities during the production phase of a mine, referred to as production stripping costs. The new interpretation addresses the classification and measurement of production stripping costs as either inventory or as a tangible or intangible non-current "stripping activity asset". The standard also provides guidance for the depreciation or amortization and impairment of such assets. The Company has adopted the accounting standard and will apply it at such time when it reaches commercial production.

- The amendments to IAS 1, Presentation of Financial Statements require that an entity presents separately the items of other comprehensive income that would be classified to profit and loss in the future if certain conditions are met from those that would never be reclassified to profit and loss. The Company determined that the impact of the amendment did not have a significant impact on its consolidated financial statements, although it did affect disclosure in the statement of loss and comprehensive loss.

(v) Future Accounting Changes

- IAS 32, Financial Instruments Presentation ("IAS 32")

  The amendments to IAS 32 address inconsistencies in the current practice when applying the requirements. The amendments are effective for the annual periods beginning on or after January

1, 2014 and are required to be applied retrospectively. The Company is currently assessing the impact of this standard on the consolidated financial statements.

- IFRS 9, Financial Instruments ("IFRS 9")

  In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its on-going project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

  IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39 Financial Instruments: Recognition and Measurement. The standard also adds guidance on the classification and measurement of financial liabilities. The Company is currently assessing the impact of this standard on the consolidated financial statements.

- IAS 36, Impairment of assets ("IAS 36")

  IAS 36 was amended by the IASB in May 2013. The amendments require the disclosure of the recoverable amount of impaired assets when an impairment loss has been recognised or reversed during the period and additional disclosures about the measurement of the recoverable amount of impaired assets when the recoverable amount is based on fair value less costs of disposal, including the discount rate when a present value technique is used to measure the recoverable amount. The amendments to IAS 36 are effective for annual periods beginning on or after January 1, 2014. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

- IFRIC 21, Levies ("IFRIC 21")

  IFRIC 21, *Levies* was issued in May 2013 and is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation clarifies the obligating event that gives rise to a liability to pay a levy. IFRIC 21 is effective for periods beginning on or after January 1, 2014. The Company is currently evaluating the impact of this interpretation on its financial statements.

(vi) Reclassification of prior year comparative figures

Certain prior year comparatives in the consolidated statement of cash flow, related to financing and investing activities, have been reclassified to conform to the current year's presentation.

These reclassifications had no impact on the Company's reported results.

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Computer $	Office Equipment $	Vehicles $	Machinery and Equipment $	Construction in Progress $	Total $
As at December 31, 2011	203	226	-	4,691	439	5,559
Additions	40	230	655	1,557	37,849	40,331
Disposals	(20)	(3)	-	-	-	(23)
Impairment (Note 6)	-	-	-	(1,249)	(434)	(1,683)
Effects of changes in foreign exchange rates	(4)	(9)	4	5	2	(2)
As at December 31, 2012	219	444	659	5,004	37,856	44,182
Additions	160	161	-	12,969	139,516	152,806
Reclassifications	-	-	-	1,389	(1,389)	-
Effects of changes in foreign exchange rates	(22)	(31)	(46)	(896)	(8,678)	(9,673)
As at December 31, 2013	**357**	**574**	**613**	**18,466**	**167,305**	**187,315**

Accumulated depreciation	Computer $	Office Equipment $	Vehicles $	Machinery and Equipment $	Construction in Progress $	Total $
As at December 31, 2011	58	15	-	94	-	167
Depreciation	44	67	16	537	-	664
Disposals	(17)	(2)	-	-	-	(19)
Effects of changes in foreign exchange rates	(2)	(1)	1	(1)		(3)
As at December 31, 2012	83	79	17	630	-	809
Depreciation	51	74	130	1,354	-	1,609
Effects of changes in foreign exchange rates	(1)	6	(9)	(18)	-	(22)
As at December 31, 2013	**133**	**159**	**138**	**1,966**	**-**	**2,396**

Net book value at	Computer $	Office Equipment $	Vehicles $	Machinery and Equipment $	Construction in progress $	Total $
December 31, 2012	136	365	643	4,373	37,856	43,373
December 31, 2013	**224**	**415**	**475**	**16,500**	**167,305**	**184,919**

Borrowing costs of $14,338 (year ended December 31, 2012 − $2,945) were capitalized and included in construction in progress for the twelve months ended December 31, 2013.

The net book value of the Company's equipment at December 31, 2013 by geographic location is as follows: Brazil − $184,814 (December 31, 2012 − $43,245) and Canada − $105 (December 31, 2012 − $128).

Depreciation for the year ended December 31, 2013 related to equipment used in the exploration and development of the Company's exploration and evaluation and development properties of $1,551 (year ended December 31, 2012 − $660) has been included in exploration and evaluation properties and development properties.

5. EQUIPMENT DEPOSITS

	December 31, 2013	December 31, 2012
Machinery and equipment	$202	$11,214

Equipment deposits consist of advance payments to vendors for equipment which had not been received as at December 31, 2013 and 2012. During 2012, an equipment deposit of $1,130 was written off as the contract was cancelled and the deposit forfeited.

6. DEVELOPMENT PROPERTIES

	December 31, 2013			December 31, 2012		
	Maracás Vanadium Project $	**Currais Novos Tungsten $**	**Total $**	**Maracás Vanadium Project $**	**Currais Novos Tungsten $**	**Total $**
Balance, beginning of year	**91,736**	**6,987**	**98,723**	-	4,558	4,558
Reclassification from exploration and evaluation properties	**-**	**-**	**-**	75,598	-	75,598
Pre-production expenditures	**22,594**	**1,419**	**24,013**	8,940	4,858	13,798
Property acquisition	**-**	**-**	**-**	7,905	202	8,107
Scoping expenditures	**125**	**-**	**125**	1,778	178	1,956
Borrowing costs capitalized	**-**	**96**	**96**	882	274	1,156
Depreciation and amortization costs capitalized	**1,295**	**606**	**1,901**	-	660	660
Revenue from sale of Concentrate	**-**	**-**	**-**	-	(1,599)	(1,599)
Write down	**-**	**-**	**-**	-	(2,144)	(2,144)
Share-based payments	**1,859**	**-**	**1,859**	-	-	-
Effects of changes in foreign exchange rates	**(4,795)**	**-**	**(4,795)**	(3,367)	-	(3,367)
Balance, end of year	**112,814**	**9,108**	**121,922**	91,736	6,987	98,723

(a) Maracás Vanadium Project

On April 10, 2007, the Company entered into a definitive agreement to acquire the rights to earn up to a 100% interest in Companhia de Maracás S.A. ("Companhia Maracás"), which at the time held an approximate 96% interest in Vanadio de Maracás Ltda; a Brazilian company which holds title to the Maracás Vanadium project in Bahia State, Brazil. Under the agreement, the vendor retained a 2% NSR in the Maracás Vanadium property.

On December 22, 2012, the Company acquired the remaining 10% of Companhia Maracás by making a cash payment of US$8,000 ($7,905). Prior to this transaction the Company held a 90% interest in Companhia Maracás. This property is subject to a 2% NSR (the "Cancap agreement").

As at December 31, 2013 and 2012, the Company's economic interest in the Maracás Vanadium project totaled 99.97%. The remaining 0.04% economic interest is held by Companhia Baiana de Pesquisa Mineral ("CBPM") owned by the state of Bahia. CBPM retains a 3% NSR in the Maracás Vanadium project. The property is also subject to a royalty of 2% on certain operating costs under the Brazilian Mining Act. This rate is subject to change based on future changes in legislation.

During 2012 with funding available to develop the project (refer to note 8(a)(i)) the amounts previously classified under exploration and evaluation properties were reclassified to development properties. The Company performed an assessment of recoverability and determined there was no evidence of impairment at the date of the reclassification.

During the year ended December 31, 2011, the Company entered into two agreements to secure additional land rights at its Maracás project. As consideration, the Company was required to make the following payments: R$5,250 ($2,554) to be paid in twelve monthly installments pursuant to a leasing agreement commencing May 30, 2011; and, a payment of US$9,000 ($9,625) to be paid in forty monthly installments for royalties, mining easements and other uses pursuant to a mining easement commencing May 30, 2011. Both agreements have a term of 30 years. The Company has the option to purchase the land for R$275 ($125) at the end of the lease term.

(b) Currais Novos Tungsten

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

Under each of these agreements the former owners retained a 1% NSR with respect to revenue from the respective tailings piles. In addition the revenue from the processing of tailings piles is subject to a 2% NSR under the Brazilian Mining Act. This rate is subject to change based on future changes in legislation.

On September 26, 2011, the Company signed a definitive agreement to acquire four additional tungsten properties near the Company's Currais Novos Tungsten Project, in Rio Grande do Norte, Brazil. The Company is required to pay a total of US$200 within eighteen months of the agreement (paid to December 31, 2012– US$100). The seller retains a 3% NSR, which may be bought back at any time for US$2,000. The required payment date with respect to the final US$100 was extended to June 27, 2013, the Company decided not to purchase the four additional properties and gave notice accordingly pursuant to the provisions of the definitive agreement.

In October 2012, the Company announced it was suspending operations at Currais Novos due to drought conditions. The Currais Novos operations remain on care and maintenance.

Impairment

The Company completed an assessment of the carrying value of the Currais Novos project, as at December 31, 2012, and as result, recorded a non-cash impairment charge of $3,827.

The resulting impairment was due to various factors including the technical difficulties in achieving commercial production and the drought conditions at the Currais Novos project. The key assumptions used in determining the recoverable amount were the anticipated recovery rate for tungsten, long term commodity prices, discount rates, cash costs of production, capital expenditures and foreign exchange rates. The recovery rate used was 40%, the discount rate used 11%, tungsten price of US$0.346 and foreign exchange rate (USD/Canadian) of 1:0.99. As at December 31, 2012 the estimated recoverable amount of Currais Novos equals its carrying amount after recording the impairment charges noted above.

The impairment amount was highly sensitive to the anticipated recovery rate used in the recoverable amount calculation. If the recovery rate had declined to 35% the impairment charge would have been double to approximately $7,600. In the alternate, if a 45% recovery rate had been achieved, then the impairment charge would have been reduced to approximately $75.

As at December 31, 2013, the Company performed an assessment of recoverability and determined there was no evidence of impairment. The recovery rate used was 40%, the discount rate used 8%, tungsten price of US$0.380 and foreign exchange rate (USD/Canadian) of 1:1.07.

7. EXPLORATION AND EVALUATION PROPERTIES

	Brazil		Canada	
	Maracás Vanadium Project	Campo Alegre	Northern Dancer	Total
Balance December 31, 2011	$63,113	$553	$22,359	$86,025
Expenditures	8,871	47	429	9,347
Borrowing costs capitalized	3,614	-	-	3,614
Reclassification to development property	(75,598)	-	-	(75,598)
Balance, December 31, 2012	-	600	22,788	23,388
Expenditures	-	-	21	21
Share-based payments	-	-	20	20
Balance December 31, 2013	**-**	**600**	**22,829**	**23,429**

(a) Brazil - Campo Alegre de Lourdes Property

On March 27, 2009, the Company entered into an option agreement with CBPM in order to earn a 100% interest in the Campo Alegre de Lourdes property in Brazil. Pursuant to the terms of the agreement, the Company is required to invest a minimum of R$2,000 ($905). Due to legal constraints such amount was not spent and as a result on January 16, 2014, the Company signed an amendment with the local authorities extending the term of the required investment in this project. Under this amendment, the Company must spent the amount allotted within 24 months from the amendment date. The Company spent $47 during the year ended December 31, 2012. This property is subject to a 2% NSR under the current Brazilian Mining Act. In addition, CBPM retains a 3.86% NSR in the property.

The Company will also be required to pay R$250 ($113) for each mining ordinance granted by the Brazilian National Department of Mineral Production in relation to the exploration areas. Should the Company want to terminate this agreement, a penalty of R$2,000 ($905) will be payable to the optionor.

(b) Canada - Northern Dancer Property

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

The Company had earned a 70% interest in the property and in 2011 the Company acquired the remaining 30% interest in the property for aggregate consideration of $5,000 which was comprised of a payment of $2,500 and the issuance of 5,513 common shares of the Company valued at $2,500, based on the quoted market price of the shares on the date of issuance. The optionors retained a 3% NSR in the project.

8. LONG TERM DEBT

	December 31, 2013	December 31, 2012
Total debt	$168,143	$51,504
Current portion	13,962	-
Long term debt(*)	$154,181	$51,504

(*) The carrying amount of the long term debt excludes unamortized deferred transaction costs of $6,044 as at December 31, 2013 (2012 - $2,782).

(a) Debt Facility

(i) On July 3, 2012, the Company's subsidiary Vanadio de Maracás S.A. ("Vanadio") entered into a definitive agreement with the Business Development Bank of Brazil ("BNDES") for a debt financing facility for its Maracás Vanadium project in Bahia, Brazil (the "BNDES Facility"). As at December 31, 2013, the total facility, as a result of the indexing of a portion to U.S. dollars, was R$363.8 (or approximately US$155.3 as at December 31, 2013). As a condition precedent to the BNDES Facility, the Company also entered into a guarantee agreement (having an associated fee of 3.3%) with a consortium of three commercial banks in Brazil on the facility's original amount of R$333.8.

The facility is denominated in Brazilian reais, but approximately 56% (R$202,500) of the facility is indexed to U.S. dollars ("U.S. dollar component"). The 44% of the facility that is not indexed ("R$ component") currently bears a weighted average interest rate of 6.4%, while the US dollar component currently bears a weighted average interest rate of approximately 5.4%. The interest rate on the US dollar component is based on the BNDES cost of borrowing a basket of foreign funds, plus a weighted average margin rate of 1.80% which will increase or decrease with BNDES's foreign borrowing costs. Approximately R$50,100 of the R$ component is to be fixed at 5.5%, while the remaining R$111,250 is based on the *Taxa de Juros de Longo Prazo* ("TJLP") index, currently at 5.0%, a long term interest rate that BNDES posts from time to time, plus a weighted average margin of 1.8%. The facility has a two year grace period on principal from the initial draw down on July 18, 2012, and then will amortize on a straight line basis over 72 months, with the first repayment scheduled for August 16, 2014 and is secured by the Maracás Vanadium property as well as all of the development and fixed assets located at or associated with it.

The guarantee agreement related to the BNDES facility contains a number of financial tests that Vanadio must meet on a semi-annual basis, or the guarantee agreement would be in default. Such a default could result in the loan facility with BNDES becoming immediately repayable. The financial tests include Vanadio maintaining equity in excess of 35% of its total assets, Vanadio maintaining a debt service coverage index of more than 1.3 times, and Vanadio maintaining a net indebtedness to EBITDA ratio of more than 3.0 times. In addition, under the guarantee agreement, Vanadio must also maintain sufficient funds in a debt reserve and price reserve account. Debt covenants must be met from December 31, 2014 onwards.

As at December 31, 2012, the Company had drawn down US$32,000 under the U.S. dollar component and R$40,000 under the R$ component of the BNDES facility. The draw downs totaled $52,000. To December 31, 2013, an additional US$54,400 and R$82,000 (approximately $37,000) were drawn down. As at December 31, 2013 a total of US$7,600 and R$38,900 (approximately $8,100 and $17,600) remained available under the loan facility.

In December 2013, Vanadio entered into a swap agreement with a notional value of US$52,000 with a Brazilian Bank (see Note 20)

As at December 31, 2013, an amount of $10,235 is due for repayment within the next twelve months.

As at December 31, 2013, $4,700 (2012 - $3,400) of transaction costs were netted against the various draw downs, an amount of $1,350 (2012 - $6,000) has been accounted for as deferred transaction costs that will be netted on a pro-rata basis against future draw downs. Transaction costs will be accreted over the term of the loan using the effective interest method

(ii) On July 2, 2013, Vanadio drew down R$22,000 under an export credit facility with a Brazilian bank. The facility bears interest at the posted CDI rate (the Brazilian interbank lending rate) plus 2.95%. The facility amortizes on a quarterly basis in seven equal amounts of R$2,400 starting on July 2, 2014. Vanadio simultaneously entered into a swap agreement with a notional value of US$10,000 with the same bank under which Vanadio will receive amounts equal to its amortizing liability and interest under the loan agreement and will make seven equal payments of US$1,400 plus interest at a fixed 6.5% rate. As at December 31, 2013, an amount of $2,213 is due for repayment within the next twelve months.

On July 2, 2013, Vanadio drew down US$10,000 under an export credit facility with a second Brazilian bank. The facility bears interest at a fixed rate of 4.2%, as well as additional variable payments that are calculated based on 2.5% of the highest annual EBITDA of Vanadio through 2016 to a maximum additional amount of US$2,000. The facility amortizes on a quarterly basis in five equal amounts of US$2,000 starting on January 2, 2015. As at December 31, 2013, an amount of $1,514 is due for repayment within the next twelve months.

Each of the loans is secured by a second priority charge on the Maracás project assets. An upfront fee of 1.5% was paid on each of the loans.

(b) Promissory note

During the year ended December 31, 2011, the Company entered into an agreement to issue a promissory note (the "Note") in the amount of US$4,000. The Note bore interest at LIBOR plus 8% ("LIBOR USD Loan"). The Note was convertible into common shares of the Company at the option of the holder at the market price of the Company's shares on the date of conversion. The US$4,000 was advanced to the Company in four tranches. During 2010, the Company received an advance of US$610 ($607) on the first tranche. As of December 31, 2011, the Company had received US$4,000 ($4,068) and had recognized accrued interest payable in the amount of US$281 ($278). The principal amount of the loan was to be repaid in monthly installments commencing in February 2012 and was fully repaid on March 22, 2013.

(c) Bridge Loan

In March 2012, the Company received a bridge loan in the amount of approximately R$21,250 ($11,768) in order to proceed with costs associated with converting the Maracás Vanadium project from an exploration property into a development property (Note 6). The bridge loan facility bore interest at the CDI plus 4.65%. The all-in rate per annum on this facility was approximately 12%. The bridge loan was repaid on July 5, 2012.

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Company's accounts payables and accrued liabilities as at December 31, 2013 and December 31, 2012 are as follows:

	December 31, 2013	December 31, 2012
Accounts payable	**$6,071**	$3,038
Accrued liabilities (*)	**6,537**	3,821
Accrued financial costs	**2,630**	1,151
Other taxes	**419**	234
Total	**$15,657**	$8,244

(*) The Company recognized a liability of $3,225 (2012 - $1,168) related to a tungsten supply agreement. Refer to Note 18.

10. PROVISION FOR CLOSURE AND RECLAMATION

The Company makes full 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, which are expected to be incurred. These provisions have been created based on the Company's internal estimates. Assumptions, including an inflation rate of 5.9% and a discount rate of 10.5%, have been made which management believes are a reasonable basis upon which to estimate the future liability.

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:

	Currais Novos Tungsten	Maracás Vanadium Project	Total
Balance, December 31, 2011	$877	$ -	$ 877
Provision recognized during the year	-	1,140	1,140
Accretion	66	-	66
Effect of foreign exchange	(99)	-	(99)
Balance, December 31, 2012	$844	$ 1,140	**$1,984**
Provision recognized during the year	-	1,226	**1,226**
Accretion	67	65	**132**
Effect of foreign exchange	(41)	(57)	**(98)**
Balance, December 31, 2013	**$870**	**$2,374**	**$3,244**

The provision for closure and reclamation of the Currais Novos project as at December 31, 2013 is based on an anticipated liability of approximately R$2,397 ($1,170) (2012 - R$2,397 ($1,170)) and reclamation is expected to occur in four years. The provision for closure and reclamation of the Maracás Vanadium project as at December 31, 2013 is based on a total anticipated liability of R$16,347 ($7,399) (2012 – R$5,109 ($2,485)) and is expected to be incurred in 2041.

11. ISSUED CAPITAL

AUTHORIZED

Unlimited number of common shares with no par value.

ISSUED

	Year ended December 31, 2013		Year ended December 31, 2012	
	Number of shares	Stated Value $	Number of shares	Stated Value $
Balance, beginning of year	**869,593**	**208,997**	464,541	109,290
Private placements, net of issue costs	**112,747**	**23,246**	109,091	23,747
Shares issued for subscription receipts, net of issue costs	**-**	**-**	295,511	73,878
Transfer value from subscription receipts exercised	**-**	**-**	-	16,922
Warrant valuation	**-**	**-**	-	(14,926)
Options exercised	**-**	**-**	450	53
Transfer value from options exercised	-	-	-	33
Balance, end of year	**982,340**	**232,243**	869,593	208,997

On December 13, 2013, the Company closed a non-brokered private placement for gross proceeds of $17,000 through the issuance of 84,999 common shares at a price of $0.20 per common share. The Company incurred issue costs of $70 related to this financing

On March 15, 2013, the Company closed a non-brokered private placement for gross proceeds of $6,382 through the issuance of 27,748 common shares at a price of $0.23 per common share. The Company incurred issue costs of $66 related to this financing.

On October 31, 2012, the Company closed a $10,000 private placement of common shares through the issuance of 45,455 common shares at a price of $0.22 per common share. The Company incurred issuance costs of $207.

On March 12, 2012, the Company closed an equity financing for gross proceeds of $14,000 through the issuance of 63,636 units of the Company at a price of $0.22 per unit. Each unit was comprised of one common share of the Company and one common share purchase warrant. Each warrant is exercisable for one common share of the Company at a price of $0.30 until March 12, 2016. The grant date fair value of the warrants was estimated at $5,074 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 106%; risk-free interest rate of 1.39% and expected life of four years. The Company incurred issue costs of $46 related to this financing.

In 2011 the Company closed a non-brokered private placement through the issuance of 242,719 subscription receipts. Each subscription receipt was convertible, at no additional cost, into one unit upon the satisfaction of certain conditions relating to the development of the Maracás project, including the securing of financing for the project, acquisition of the necessary land and the receipt of the environmental installation licenses for the property (the "Conditions"). In addition, pursuant to an agreement signed with substantially all of the investors in March 2012 the deadline for the Company to meet the Conditions was extended to December 31, 2012. The total proceeds of $84,952 plus accrued interest of $550, less a reduction of $11,000 due to an early exercise and less $74 repaid to an investor who did not extend, resulted in a net amount of $74,428 at June 30, 2012 in restricted cash on the consolidated statement of financial position.

On July 3, 2012, the 246,259 outstanding subscription receipts of the Company were converted into 295,511 units (Note 12) and concurrently, an aggregate of $74,428, being the gross proceeds remaining in escrow from the issuance of the subscription receipts plus interest accrued thereon, became non-restricted cash when it was released from escrow to the Company.

On conversion, each subscription receipt converted into 1.2 units, with each unit comprised of one common share and one-third of one common share purchase warrant. Each whole warrant entitles the holder to acquire one further common share at a price of $0.35 expiring on April 8, 2015. The Company issued an aggregate of 295,511 common shares and 98,504 warrants pursuant to the conversion.

A continuity of the transactions affecting the subscription receipts liability for the year ended December 31, 2012 is as follows:

	Amount
Balance, December 31, 2011	$ 70,920
Accretion costs charged to exploration and evaluation properties	3,300
Repayment to subscription receipt holder	(74)
Interest earned on funds held in escrow	282
Conversion of subscription receipts to shares and warrants	(74,428)
Balance, December 31, 2012	**$ -**

12. EQUITY RESERVES

	Number of Options	Weighted Average Exercise Price $	Value of Options Vested $	Number of Warrants	Weighted Average Exercise Price $	Value of Warrants $	Equity portion of subscription receipts liability $	Total Value $
December 31, 2011	21,931	0.53	8,373	39,048	0.36	6,640	925	15,938
Granted	600	0.29	46	162,140	0.33	14,926	-	14,972
Loss on amendment to subscription receipts	-	-	-	-	-	-	15,997	15,997
Allocation to issued capital	-	-	-	-	-	-	(16,922)	(16,922)
Exercised	(450)	(0.12)	(33)	-	-	-	-	(33)
Expired	(3,360)	(0.71)	(1,790)	-	-	-	-	(1,790)
Forfeited	(200)	(0.69)	(15)	-	-	-	-	(15)
December 31, 2012	18,521	0.50	6,581	201,188	0.36	21,566	-	28,147
Granted	41,811	0.24	3,435	-	-	-	-	3,435
Expired	(13,004)	(0.64)	(5,477)	-	-	-	-	(5,477)
Forfeited	(638)	(0.22)	(71)	-	-	-	-	(71)
December 31, 2013	**46,690**	**0.23**	**4,468**	**201,188**	**0.36**	**21,566**	**-**	**26,034**

The Company has an incentive stock option plan (the "Plan") whereby the Company can grant to directors, officers, employees and consultants options to purchase shares of the Company. The Plan provides for the issuance of stock options to acquire up to 10% of the Company's issued and outstanding capital. Under the plan the Company has issued approximately 4.7% of its issued and outstanding capital as at December 31, 2013. The Plan is a rolling plan as the number of shares reserved for issuance pursuant to the grant of stock options will increase as the Company's issued and outstanding share capital increases. The terms and conditions of each option granted under the Plan will be determined by the Board of Directors. Options will be priced in the context of the market and in compliance with applicable Securities laws and Exchange guidelines. Consequently, the exercise price for any stock option shall not be lower than the market price of the underlying common shares at the time of grant. Vesting terms will be determined at the discretion of the Board. The Board shall also determine the term of stock options granted under the Plan, provided that no stock option shall be outstanding for a period greater than five years.

During the year ended December 31, 2013, the Company granted 41,810 (2012 - 600) stock options to its employees which vest over a period of 3 years, are exercisable at a weighted average price of $0.24 per option (2012 - $0.29) and expire in 2018 (2012 - 2017). The estimated weighted average grant date fair value of stock options granted during the year ended December 31, 2013 was $0.11 (2012 − $0.23) per option. The following table summarizes the weighted average assumptions used in the Black-Scholes valuation model for the determination of the cost of stock options issued during the years ended December 31, 2013 and 2012.

Year ended December 31	**2013**	**2012**
Risk free interest rate	1.13 -1.35%	1.33%
Expected life in years	5.0	5.0
Expected volatility	53% - 64%	107%
Expected dividends	0%	0%
Expected forfeiture rate	0%	0%

The Company applies the fair value method of accounting for share-based payment awards. The Company estimated the expected volatility using historical volatilities from traded shares in the Company's peer group when estimating the fair value of stock options granted during 2013, as it believes that this methodology better reflects the expected future volatility of its stock. The peer group is a group of publicly listed companies deemed to reflect fundamentals of the Company's stock.

During the year ended December 31, 2013, the Company recognized a share-based payment expense of $3,435 (2012−$45) for options granted to the Company's officers, employees and consultants. Of the total share-based payment expense, $1,556 (2012-$30) was charged to operations, $20 (2012-$15) was charged to exploration and evaluation properties and $1,859 (2012-$Nil) was charged to development properties.

The following share-based payment arrangements were in existence as at December 31, 2013:

STOCK OPTIONS:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price $	Estimated fair value at grant date $	Grant date share price $
1,700	1,700	15-May-09	15-May-14	0.10	281	0.09
2,530	2,530	27-Jan-10	27-Jan-15	0.24	702	0.23
100	100	1-Feb-10	1-Feb-15	0.24	34	0.23
2,600	2,600	9-Aug-10	9-Aug-15	0.18	620	0.19
100	100	1-Feb-11	1-Feb-16	0.40	32	0.49
400	266	6-Feb-12	6-Feb-17	0.29	90	0.29
11,753	8,815	23-Jan-13	23-Jan-18	0.22	1,521	0.22
11,754	-	23-Jan-13	23-Jan-18	0.24	1,460	0.22
11,753	-	23-Jan-13	23-Jan-18	0.26	1,404	0.22
334	250	27-Jun-13	27-Jun-18	0.22	22	0.18
333	-	27-Jun-13	27-Jun-18	0.24	20	0.18
333	-	27-Jun-13	27-Jun-18	0.26	19	0.18
334	250	03-Sep-13	03-Sep-18	0.22	21	0.19
333	-	03-Sep-13	03-Sep-18	0.24	23	0.19
333	-	03-Sep-13	03-Sep-18	0.26	24	0.19
667	500	11-Nov-13	11-Nov-18	0.24	60	0.24
666	-	11-Nov-13	11-Nov-18	0.26	56	0.24
667	-	11-Nov-13	11-Nov-18	0.28	52	0.24
46,690	17,111				6,441	

The remaining weighted average contractual life of options outstanding at December 31, 2013 was 3.7 years (2012 – 1.7 years).

WARRANTS AND BROKER WARRANTS:

No. outstanding	No. exercisable	Grant date	Expiry date	Exercise price $	Estimated fair value at grant date $	Expected volatility	Expected life (years)	Expected dividend yield	Risk-free interest rate
28,572	28,572	11-Apr-11	8-Apr-15	0.50	4,857	105%	4	0%	2.30%
10,476	10,476	9-Dec-11	8-Apr-15	0.50	1,783	107%	3.3	0%	0.92%
63,636	63,636	12-Mar-12	12-Mar-16	0.30	5,074	106%	4	0%	1.39%
98,504	98,504	3-July-12	8-Apr-15	0.35	9,852	67%	2.8	0%	1.09%
201,188	201,188				21,566				

The estimated weighted average grant date fair value of warrants granted during the year ended December 31, 2012 was $0.09.

EQUITY PORTION OF SUBSCRIPTION RECEIPTS LIABILITY:

To meet a condition precedent of the Bridge Loan (Note 8(c)), the Company was required to obtain an extension on meeting the Conditions of the subscription receipts (Note 11) from April 8, 2012 to December 31, 2012. As compensation for the extension, the Company offered holders of the subscription receipts of the Company amendments to the terms of the 211,290 outstanding subscription receipts (the "Amendments") as follows:

(i) certain Escrow Release Conditions were to be revised to add certain additional terms to provide further certainty in the Escrow Release Conditions and to remove certain rights previously provided to the lead Investors;

(ii) effective on the date of the Amendments, the number of subscription receipts held by each amending holder would increase by a factor of 7/6, or an aggregate of 35,215 subscription receipts, which would result in an aggregate of 246,505 subscription receipts being issued and outstanding upon completion of the Amendments and resulting in an effective price of $0.30 per subscription receipt unit issuable upon conversion of the amended subscription receipts;

(iii) also effective on the date of the Amendments, the exercise price of the subscription receipt warrants was to be decreased from $0.50 to $0.40;

(iv) in the event the Escrow Release Conditions have not been met on or before April 8, 2012, the number of subscription receipt units into which the amended subscription receipts convert shall be increased by a factor of 1.2 on conversion of the amended subscription receipts on and after such date and resulting in an effective price of $0.25 per subscription receipt unit; and

(v) also in the event the Escrow Release Conditions have not been met on or before April 8, 2012, the exercise price of the subscription receipt warrants would be further decreased from $0.40 to $0.35 per share.

An investor who owned 211 subscription receipts declined to accept the Company's offer with respect to the extension of the subscription receipts and received $74 from escrow. Accordingly, as at March 9, 2012, the number of subscription receipts outstanding decreased to 246,259.

As the amended Escrow Release Conditions were not met by April 8, 2012, the number of subscription receipt units into which the subscription receipts may convert increased by 49,252 subscription receipt units to an aggregate of 295,511 subscription receipt units.

As a result of the amendments in terms, the value of the subscription receipt conversion option increased from $925 to $16,922. This increase of $15,997 has been recorded in the consolidated statement of loss for the year ended December 31, 2012 as loss in amendment of subscription receipts. On July 3, 2012, on the conversion of the subscription receipts the $16,922 of value recorded in equity reserves was allocated to the 295,511 common shares and 95,504 warrants that were issued.

The 95,504 warrants were issued with an exercise price of $0.35 per share and an expiry date of April 8, 2015.

13. INCOME TAXES

a) Provision for Income Taxes

The major items causing the Company's income tax expense to differ from the Canadian combined federal and provincial statutory rate of 26.50% (2012 – 26.50%) were:

	2013 $	2012 $
Loss before income taxes	11,576	25,213
Expected income tax recovery based on statutory rate	(3,068)	(6,681)
Adjustment to expected income tax benefit:		
Permanent differences and other	203	4,317
Effect of tax rates in foreign jurisdictions	(868)	(373)
Change in tax rates	-	(265)
Foreign exchange	1,978	132
Tax benefits not recognized	1,755	2,870
Income tax provision (recovery)	-	-

b) Deferred Income Tax Balances

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

Canada	2013 $	2012 $
Non-capital loss carry-forwards	21,670	16,429
Share issue costs	3,501	4,746
Exploration and evaluation assets	724,	707
Other	142	415
	26,037	22,297

Brazil	2013 $	2012 $
Non-capital loss carry-forwards	8,443	3,636
Exploration and evaluation assets	-	1,097

The Company has approximately $21,670 (2012 - $16,429) of non-capital losses in Canada, $5,431 (R$12,000) (2012 - $3,636, R$7,475) of non-capital losses in Brazil and approximately $23,350 (2012 - $23,312) of Canadian development and exploration expenditures and $239,492 (R$529,147) (2012 - $33,583, R$69,045) of development costs in Brazil as at December 31, 2013, which under certain circumstances can be used to reduce the taxable income of future years.

The non-capital losses in Canada expire as follows:

Expiry Date	Amount $
2014	557
2015	598
2026	251
2028	733
2029	692
2030	2,098
2031	5,496
2032	6,201
2033	5,044
	21,670

The non-capital losses in Brazil carry forward indefinitely.

Deferred tax assets have not been recognized in respect of these items because it is not probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the tax benefits can be utilized.

14. LOSS PER SHARE

Total shares issuable from options and warrants excluded from the computation of diluted loss per share because their effect would be anti-dilutive for the year ended December 31, 2013 were 46,690 (December 31, 2012 – 18,521) and 201,188 (December 31, 2012 – 201,188) respectively.

15. CASH FLOW − OTHER ITEMS

Year ended December 31,	2013 $	2012 $
Non-cash investing and financing transactions:		
Depreciation and amortization charged to exploration, evaluation and development properties	1,551	660
Accretion costs relating to subscription receipts charged to exploration and evaluation properties	-	3,300
Share–based payments charged to exploration and evaluation and development properties	1,879	15
Borrowing costs charged to property, plant and equipment	14,338	2,945
Borrowing costs charged to exploration, evaluation and development properties	96	3,259

16. SEGMENTED INFORMATION

The Company has two operating segments: development properties and exploration and evaluation properties. Corporate, which is not an operating segment includes all the corporate growth and the corporate team that provides administrative, technical, financial and other support to all of the Company's business units.

Year ended December 31, 2013	Exploration and evaluation properties $	Development properties $	Corporate $	Total $
Professional, consulting and management fees	-	195	2,180	2,375
Other general and administrative expenses	-	87	1,111	1,198
Share based payments	-	-	1,556	1,556
Other losses	-	-	2,058	2,058
Foreign exchange loss (gain)	-	4,860	24	4,884
Finance income	-	(471)	(24)	(495)
Finance costs	-	-	-	-
Net loss	-	4,671	6,905	11,576
As at December 31, 2013				
Total assets	23,451	342,127	3,146	368,724
Total liabilities	-	178,318	3,342	181,660

Year ended December 31, 2012	Exploration and evaluation properties $	Development properties $	Corporate $	Total $
Professional, consulting and management fees	-	-	1,964	1,964
Other general and administrative expenses	-	300	1,260	1,560
Other losses	-	-	30	30
Share based payments	-	-	1,048	1,048
Foreign exchange loss (gain)	-	(26)	(295)	(321)
Finance income	-	(10)	(33)	(43)
Finance costs	-	14	7	21
Loss before the undernoted	-	278	3,981	4,259
Loss on amendment to subscription receipts	-	-	15,997	15,997
Write down of assets	-	3,827	-	3,827
Write off of equipment deposits	-	1,130	-	1,130
Net loss		5,235	19,978	25,213
As at December 31, 2012				
Total assets	23,428	216,251	2,237	241,916
Total liabilities	1	58,464	3,241	61,706

17. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2012, the Company shared office space with other companies who had similar officers and/or directors. The costs associated with this space of $53 were charged by 2227929 Ontario Inc. to the Company, administration fees of $5 and a termination fee of $60 were charged by Forbes & Manhattan. No transactions were entered into with these related parties during 2013.No amounts were owed or owing to these related or previously related parties as at December 31, 2013 and 2012.

Compensation of key management personnel of the Company

The remuneration of directors and other members of key management personnel during the year were as follows:

	For the year ended December 31,	
	2013	2012
Short-term benefits	$1,637	$1,183
Share-based payments	2,100	45
	$3,737	$1,228

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 is a partner of a law firm that provides services on a recurrent basis to the Company. During the year ended December 31, 2013 an amount in legal fees of $398 (2012 − $634) was billed, due and paid under normal payment terms. As at December 31, 2013, the Company owed additional legal fees of $108 (year ended December 31, 2012 − $Nil) which is included in accounts payable and accrued liabilities. The amount owing is unsecured, non-interest bearing with no fixed terms of repayment. Refer to Note 18 for additional commitments with management.

The Company has four investors who, through various mutual funds they manage, each hold more than 10% of the currently outstanding shares (“Lead Investors”). The Lead Investors owned approximately 65% of the Company’s outstanding shares as at December 31, 2013 (2012 - 60%). Certain Lead Investors subscribed for an aggregate of 8,183 units in the March 2013 financing and 75,000 units in the December 2013 financing of which aggregate gross proceeds to the Company were $16,882. During the year ended December 31, 2012, the Lead Investors subscribed for 40,545 units of financing activities for aggregate gross proceeds to the Company of $18,920.

18. COMMITMENTS AND CONTINGENCIES

At December 31, 2013, the Company was party to certain management and consulting contracts. Minimum commitments under the agreements are approximately $1,412 all payable within one year. These contracts also require that additional payments of up to approximately $2,884 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 to Glencore International AG under an off take agreement.

The Company provides certain letters of credit and guarantees for $700 worth of contracts entered by one of the Company’s subsidiaries Vanadio.

The Company has certain debt covenants related to the debt facility described on note 8(a), debt covenants must be met from December 31, 2014 onwards.

The Company has entered into a 30-year land lease agreement at its Currais Novos Tungsten. As consideration, the Company was required to pay R$9 ($6) per month until December 2013.

In 2011, the Company signed a supply agreement for the sale of tungsten concentrate. The term of the agreement is from July 1, 2011 to October 30, 2015, subject to a two-year extension. Under the terms of the agreement, the Company is required to supply monthly minimum quantities of tungsten concentrate or, after April 15, 2012, if the Company has not met its minimum obligation, it is required to make cash payments for each ton of concentrate not delivered equal to the difference between 77% and 85% of the London Metal Bulletin Tungsten APT European free market low price average for the month prior to shipment. The Company failed to ship the minimum quantities of tungsten concentrate required per the supply agreement, and as a result of possible enforcement of this clause, as at December 31, 2013 an amount of $3,225 (December 31, 2012 − $1,167) was recorded under IAS 37 as accrued liabilities (see note 9) and other losses in the consolidated statement of loss. Based on the current pricing of tungsten and the Company's current inability to produce product, unless the Company can resolve this issue with its customer or recommences operations, the Company estimates it will recognize an additional provision under IAS 37 of $470 per quarter. In July 2013, the customer elected to refer the matter to arbitration under the dispute resolution provisions of the supply agreement. As is customary in such disputes, the unresolved claim made by the customer is in excess of the cumulative provision recognized by management. The final outcome of the arbitration cannot be predicted with certainty.

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

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

The Company is committed to a minimum amount of rental payments under two long-term leases of office space which expire on November 30, 2015 and October 30, 2016, respectively. Minimum rental commitments remaining under the leases are approximately $694, including $264 due within one year. Minimum rental commitments for successive fiscal years are approximately:

Year	Amount $
2014	264
2015	264
2016	166
	694

19. CAPITAL MANAGEMENT

The Company is a development and exploration stage entity with no producing assets. The Company manages its capital to ensure that it will be able to continue to meet its financial and operational strategies and obligations, while maximizing the return to shareholders through the optimization of debt and equity financing. The term of the debt is based on anticipated cash flow from operations once development properties become operational.

In the management of capital, the Company includes debt and the components of shareholder's equity.

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 capital structure, the Company may attempt to issue new shares, acquire or dispose of assets, attempt to obtain additional debt financing or repay debt facility.

There were no changes in the Company's capital management strategy during the year ended December 31, 2013 compared to the previous year. The Company does not pay out dividends and it is required to meet certain financial covenants including a minimum equity to assets ratio as part of a debt facility (see note 8 (a)).

20. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities as at December 31, 2013 and December 31, 2012 were as follows:

	December 31, 2013 $	December 31, 2012 $
	Level 1	Level 1
Cash	17,009	2,144
Restricted cash	16,012	54,223
Amounts receivable	1,911	470
Accounts payable and accrued liabilities	15,657	8,244
Current portion of long-term debt	13,962	1,459
Long-term debt	148,137	48,722,
Other long term liabilities	660	1,297
	Level 2	Level 2
Derivative asset at FVTPL	744	-
Derivative liabilities at FVTPL	275	-

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.

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.

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 carrying amounts for cash, restricted cash, amounts receivable and accounts payable and accrued liabilities on the statements of financial position approximate fair values because of the limited term of these instruments.

The debt facility (note 8 (a)) is recognized initially at fair value, net of financing costs incurred, and subsequently measured at amortized costs. Any difference between the amounts originally received and

the redemption value of the debt is recognized in the consolidated statement of loss over the period to maturity using the effective interest method.

At December 31, 2013 and December 31, 2012, the Company had non-deliverable foreign exchange contracts with a first-tier Brazilian bank that it valued based on the stated forward foreign exchange rates as posted by the Bank of Brazil and accordingly, the valuation would be categorized as Level 2 under IFRS 7.

Credit risk

The Company's credit risk is primarily attributable to cash, restricted cash and amounts receivable. The Company minimizes its credit risk with respect to cash and cash equivalents by leaving its funds on deposit with the highest rated banks in Canada and Brazil. Similarly, as required by the trustee of the restricted cash, these funds are also on deposit with one of the highest credit rated banks in Brazil. Financial instruments included in amounts receivable consist primarily of a receivable from one unrelated company. Management believes that the credit risk related to this receivable is remote due the credit quality of the customer.

Liquidity risk

The following table details the Company's expected remaining contractual cash flow requirements as at December 31, 2013 for its financial liabilities with agreed repayment periods. The amounts presented are based on the undiscounted cash flows of financial liabilities and therefore, do not equate to the carrying amounts on the consolidated statement of financial position.

	< 6 months $	6 months to 1 year $	1 to 3 years $	>3 years $
Accounts payable and accrued liabilities	15,470	187	-	-
Long-term debt	-	13,962	65,959	88,018
Other long term liabilities	-	-	660	-
	15,470	14,149	66,619	88,018

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2013 the Company had cash of $17,009 (2012 - $2,144) and restricted cash of $16,012 (2012 - $54,223) to settle current liabilities of $15,657 (2012 - $9,703). Of the current liabilities, $12,627 (2012 - $6,572) related to amounts that could be settled by the use of restricted cash.

The amount of $16,012 (2012 − $54,223) is classified as restricted cash and deposited in accounts in Brazil that are restricted to finance expenditures related to the Maracás Vanadium project or to service the interest payments and the guarantee fees payable pursuant to the debt facility.

Market risk

(a) Interest rate risk

The Company's exposure to a rise in interest rates is limited to that portion of its total debt facility that is subject to floating interest rates. These floating interest rates are posted by BNDES from time to time and are in turn based on an US$ basket rate. As a consequence, these posted rates could rise in the future.

The Company has partially mitigated its interest rate risk by virtue of a swap transaction concluded on December 23, 2013. The Company swapped substantially all of the R$ denominated sub-credits

of its total debt facility (R$122,391 at a R/US exchange rate of 2.363, for a notional value of US$52,000) under which the Company will pay amounts equal to its amortizing liability and interest applicable to the various sub-credits at fixed US$ interest rates ranging from -1.56% to 0.15%.

As at December 31, 2013, the portion of the Company's total debt facility and other US dollar denominated debt exposed to interest rate risk was approximately US$104,000 and a sensitivity to a plus or minus 1% change in the interest rate associated with this portion of the debt would affect interest expense by approximately plus or minus US$1,040 for a 12 month period.

(b) Foreign currency risk

The Company has swapped substantially all of the R$ denominated sub-credits of its total debt facility, with a notional value of approximately US$52,000, as described above. The impact of fluctuations in foreign currency is therefore neutral as it relates to repayments of the Company's US dollar denominated debt.

At December 31, 2013, the Company's subsidiary Vanadio had entered into non-deliverable foreign exchange contracts totaling approximately US $716 required by a Brazilian bank that was providing it with US dollar denominated letters of credit required by non-Brazilian suppliers to support equipment purchases contracts for the Maracás Vanadium project.

(c) Price risk

The Company does not hold and does not expect to hold any significant amount of financial assets that are exposed to price risk.

21. SUBSEQUENT EVENTS

(a) In February and March 2014, the Company made an additional drawdown under the debt facility discussed in Note 8(a) totaling $17,530 (R$37,430)

(b) Subsequent to December 31, 2013, 2,100 options were exercised for proceeds of $258.