

Excellon Resources Inc.

Interim Consolidated Financial Statements

March 31, 2011

in thousands of U.S. dollars
(unaudited)

Excellon Resources Inc.
Consolidated Statement of Financial Position
(Unaudited)

(in thousands of U.S. dollars)

	March 31, 2011	December 31, 2010	January 1, 2010
	\$	\$	\$
Assets			
Current assets			
Cash and cash equivalents	4,921	1,978	4,484
Marketable securities	-	-	10
Trade receivables	2,026	1,955	4,088
Income taxes receivable	2,572	2,481	828
Inventories (note 6)	1,452	1,383	436
Other current assets	1,195	1,305	929
	<u>12,166</u>	<u>9,102</u>	<u>10,775</u>
Non-current assets			
Property, plant and equipment (note 7)	24,170	23,805	20,712
Intangible assets (note 8)	2,048	1,970	3,327
Deferred income tax assets	-	213	-
Total assets	<u>38,384</u>	<u>35,090</u>	<u>34,814</u>
Liabilities			
Current liabilities			
Trade payables	3,245	2,955	3,382
Non-current liabilities			
Provisions (note 9)	1,460	1,375	457
Deferred income tax liabilities	81	-	773
Total liabilities	<u>4,786</u>	<u>4,330</u>	<u>4,612</u>
Equity			
Share capital (note 10)	58,532	55,937	53,166
Contributed surplus	6,960	7,655	7,475
Accumulated other comprehensive income	1,955	1,471	-
Deficit	(33,849)	(34,303)	(30,439)
Total equity	<u>33,598</u>	<u>30,760</u>	<u>30,202</u>
Total liabilities and equity	<u>38,384</u>	<u>35,090</u>	<u>34,814</u>

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

Excellon Resources Inc.

Consolidated Statement of Comprehensive Income

For the three months ended March 31, 2011 and 2010

(Unaudited)

(in thousands of U.S. dollars, except per share data)

	March 31, 2011 \$ (3 months)	March 31, 2010 \$ (3 months)
Revenues	7,385	9,975
Cost of sales	(4,031)	(5,090)
Gross profit	<u>3,354</u>	<u>4,885</u>
Corporate administrative expenses	(1,131)	(1,095)
Share-based compensation	(336)	(288)
Exploration	(800)	(2,190)
Other operating income (expenses)	(194)	(138)
Operating profit	<u>893</u>	<u>1,174</u>
Finance costs	(16)	(21)
Net finance costs	<u>(16)</u>	<u>(21)</u>
Income before income tax	<u>877</u>	<u>1,153</u>
Income tax	(422)	(620)
Net income for the period	<u>455</u>	<u>533</u>
Other comprehensive income (loss)		
Foreign currency translation differences for foreign operations	484	(380)
Total comprehensive income for the period	<u>939</u>	<u>153</u>
Earnings per share:		
Basic	\$ 0.00	\$ 0.00
Diluted	\$ 0.00	\$ 0.00

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

Excellon Resources Inc.

Consolidated Statement of Changes in Equity

For the three months ended March 31, 2011 and 2010

(Unaudited)

(in thousands of U.S. dollars)

	Share capital \$	Contributed surplus \$	Accumulated other com- prehensive income (loss) \$	Deficit \$	Total equity \$
Balance - January 1, 2011	55,937	7,655	1,471	(34,304)	30,759
Net income for the period	-	-	-	455	455
Other comprehensive income (loss)	-	-	484	-	484
Comprehensive income (loss) for the period	-	-	484	455	939
Employee share options:					
Value of services recognized	-	334	-	-	334
Proceeds on issuing shares	2,595	(1,029)	-	-	1,566
Balance - March 31, 2011	58,532	6,960	1,955	(33,849)	33,598
Balance - January 1, 2010	53,166	7,475	-	(30,439)	30,202
Net income for the period	-	-	-	533	533
Other comprehensive income (loss)	-	-	(380)	-	(380)
Comprehensive income (loss) for the period	-	-	(380)	533	153
Employee share options:					
Value of services recognized	-	111	-	-	111
Proceeds on issuing shares	201	5	-	-	206
Balance - March 31, 2010	53,367	7,591	(380)	(29,906)	30,672

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

Excellon Resources Inc.
Consolidated Statement of Cash Flow
For the three months ended March 31, 2011 and 2010
(Unaudited)

(in thousands of U.S. dollars, except per share data)

	March 31, 2011 \$ (3 months)	March 31, 2010 \$ (3 months)
Cash flow provided by (used in)		
Operating activities		
Net income for the period	455	533
Adjustments for:		
Depletion, depreciation and amortization	697	288
Income tax	326	620
Share-based compensation	336	288
Post-employment benefits	48	6
Rehabilitation provision - accretion	14	20
Changes in items of working capital:		
Marketable securities	-	(1)
Trade receivables	(71)	1,891
Income taxes receivable	(91)	(14)
Inventories	(69)	(554)
Other current assets	110	(140)
Trade payables	290	532
Income taxes payable	-	509
Net cash generated from operating activities	<u>2,045</u>	<u>3,978</u>
Investing activities		
Purchase of property, plant and equipment	(388)	(206)
Purchase of Intangible assets	(51)	-
Net cash used in investing activities	<u>(439)</u>	<u>(206)</u>
Financing activities		
Proceeds on issuance of shares	1,566	206
Net cash generated in financing activities	<u>1,566</u>	<u>206</u>
Effect of exchange rate changes on cash and cash equivalents	(229)	(420)
Increase in cash and cash equivalents	2,943	3,558
Cash and cash equivalents - Beginning of the period	1,978	4,484
Cash and cash equivalents - End of the period	<u>4,921</u>	<u>8,042</u>
Cash paid for income tax	-	1,358

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

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Notes to Consolidated Interim Financial Statements

For the three months ended March 31, 2011 and 2010

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1. GENERAL INFORMATION

Excellon Resources Inc. and its subsidiaries (together the company or Excellon) is involved in the exploration, development and extraction of high-grade silver-zinc-lead metals in Mexico. Excellon is domiciled in Canada and incorporated under the laws of the province of British Columbia. The address of its registered office is 20 Victoria Street, Suite 900, Toronto, Ontario, M5C 2N8, Canada.

2. BASIS OF PRESENTATION

a. Statement of compliance

The company prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards, and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the company has commenced reporting on this basis in these interim consolidated financial statements. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34 and IFRS 1. Subject to certain transition elections disclosed in note 5a the company has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company's consolidated financial statements for the year ended December 31, 2010.

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

The condensed interim consolidated financial statements should be read in conjunction with the company's Canadian GAAP annual financial statements for the year ended December 31, 2010. Note 5d discloses IFRS information for the year ended December 31, 2010 not provided in the 2010 annual financial statements.

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b. Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value.

c. Functional currency and change in presentation currency

The functional currency of the company is Canadian dollars. Each entity in the company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Effective January 1, 2011, the company changed its presentation currency to the US dollar ("USD"). The change in presentation currency is to better reflect the company's business activities and to improve investors' ability to compare the company's financial results with other publicly traded businesses in the mining industry. Prior to January 1, 2011, the company presented its annual and interim consolidated financial statements in the Canadian dollar ("CAD"). In making this change to the presentation currency, the company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and have applied the change retrospectively as if the new presentation currency had always been the company's presentation currency. In accordance with IAS 21, the financial statements for all years and periods presented have been translated in to the new presentation currency as follows:

- All assets and liabilities have been translated from their functional currency into the new presentation currency at the beginning of the comparative period, January 1, 2010, using the opening exchange rate and retranslated at the closing rate at the date of each balance sheet;
- Income and expenses for each statement of comprehensive income presented have been retranslated at average exchange rates prevailing during each reporting period;
- Equity balances have been translated at the beginning of the comparative period, January 1, 2010, at the opening exchange rate on that date and retranslated at historical rates beginning on January 1, 2010; and
- All resulting exchange differences have been recognized in other comprehensive income and accumulated as a separate component of equity.

All financial information presented in USD has been rounded to the nearest thousand unless otherwise stated.

d. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The following areas involve a higher degree of

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judgement or are areas where assumptions and estimates are significant to the consolidated financial statements. Actual results may differ significantly from these estimates included in the consolidated financial statements.

i. Valuation of mining properties and other long lived assets

Mining properties and other long-lived assets are reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Common indicators of impairment in the mining industry include:

- A significant deterioration in expected future commodity prices;
- A significant adverse movement in foreign exchange rates;
- A significant increase in production costs;
- A large cost overrun during the development and construction of a new mine;
- A significant increase in the expected cost of dismantling assets and restoring the site;
- A significant reduction in the mineral content of ore reserves/resources;
- Serious mine accidents;
- A significant increase in market interest rates; and
- Adverse changes in government regulations and environmental law, including a significant increase in the taxes payable by the mine.

As at March 31, 2011 the company determined that there were no indicators of impairment in carrying values of mining properties or any other long lived assets or cash generating units (CGU).

ii. Useful economic life of property, plant and equipment

The cost less the residual value of each item of property, plant and equipment is amortized over its useful economic life. Amortization is charged to cost of production over the shorter of the estimated lives of the individual assets or the life of mine using the units-of-production method. Amortization commences when assets are available for use. Land is not amortized.

The assets useful lives and methods of amortization are reviewed and adjusted if appropriate at each fiscal year end.

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iii. Decommissioning and site rehabilitation provision

The company records any decommissioning and site rehabilitation obligation as a long-term liability in the period in which the related environmental disturbance occurs, based on the net present value of the estimated future costs. This obligation is adjusted at the end of each fiscal period to reflect the passage of time and changes in the estimated future costs underlying the obligation. In determining this obligation, management must make a number of assumptions about the amount and timing of future cash flows and discount rate to be used.

iv. Calculation of share-based compensation expense

The amount expensed for stock-based compensation is based on the application of a recognized option valuation formula, which is highly dependent on the expected volatility of the company's registered shares and the expected life of the options. The company uses an expected volatility rate for its shares based on past stock trading data, adjusted for future expectations, and actual volatility may be significantly different. While the estimate of stock-based compensation can have a material impact on the operating results reported by the company, it is a non-cash charge and as such has no impact on the company's cash position or future cash flows.

v. Valuation of derivatives and embedded derivatives

In the valuation of the company's outstanding derivatives and embedded derivatives, management makes estimates regarding future commodity prices and counterparty risk at each balance sheet date. Since the company recognizes the fair value of these financial instruments on the balance sheet date and records changes in fair value in the current period earnings, these estimates will have a direct impact on the company's net earnings for the period.

vi. Determination of reserves and resources

The company uses the services of experts to estimate the indicated and inferred resources of its mineral properties in Mexico. These experts express an opinion based on certain technological and legal information as prepared by management as being current, complete and accurate as of the date of their calculations and in compliance with National Instrument 43-101. These estimated resources are used in the evaluation of the carrying values, amortization rates and the timing of cash flows.

vii. Income taxes

Income taxes are calculated using the liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Deferred income tax assets and liabilities are determined

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based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. Deferred tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, including forecasts, it is probable that they will be realized.

3. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. The company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

a. Consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the company.

ii. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b. Segment reporting

The company has only a single operating segment, and therefore one reportable segment.

The single operating segment is the company's foreign operation in Mexico. The Mexican operation is principally engaged in the acquisition, exploration, evaluation, and development of mining properties. Its Platosa property has achieved commercial production and is earning revenue through the sale of silver-lead concentrate and silver-zinc concentrate to a single customer that accounted for 100% of revenues.

The company's non-current assets are located in Mexico. Non-current assets located at the corporate office in Canada are minor in relation to the total.

c. Foreign currency transactions and translation

i. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income.

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Foreign exchange gains and losses that relate to cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'foreign exchange gains (losses)'.

ii. Company subsidiaries

The results and financial position of all the company entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- All resulting exchange differences have been recognized in other comprehensive income and accumulated as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to shareholders' equity.

d. Financial instruments

i. Non-derivative financial assets

The company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the

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consolidated balance sheet when, and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The company designates non-derivative financial assets into four categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

ii. Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables, cash and cash equivalents.

iii. Non-derivative financial liabilities

The company initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the company becomes a party to the contractual provisions of the instrument.

The company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The company has the following non-derivative financial liabilities: trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

iv. Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from equity, net of any tax effects.

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e. Inventories

Silver-zinc and silver-lead in concentrate and ore stockpiles are physically measured or estimated and valued at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and costs of selling final product.

Cost is determined by the weighted average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortisation, incurred in converting materials into finished goods. The cost of production is allocated to joint products using a ratio of spot prices by volume at each month end. Separately identifiable costs of conversion of each metal are specifically allocated.

Materials and supplies are valued at the lower of cost or net realisable value. Any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken to determine the extent of any provision for obsolescence by comparing those item to their replacement costs.

When inventories have been written down to net realizable value, we make a new assessment of net realizable value in each subsequent period. If the circumstances that caused the write-down no longer exist, the remaining amount of the write-down is reversed.

f. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment charges.

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

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

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Depreciation is recorded over the useful life of the asset, or over the remaining life of the mine if shorter, as follows:

- Mining properties – on a units of production basis;
- Associated mining equipment – 3-10 years on a straight line basis
- Buildings – 20 years on a straight line basis; and
- Processing equipment – 4-8 years on a straight line basis.

Depreciation charges are based on indicated mineral resources.

Estimates of residual values and useful lives are reassessed at least at each financial year-end, and any change in estimate is taken into account in the determination of future depreciation charges.

g. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

h. Exploration and evaluation expenditure

Exploration and evaluation costs related to an area of interest, including the costs of acquiring licenses, are expensed as incurred on a project-by-project basis pending determination of the technical feasibility and commercial viability of the project and a decision by the Board of Directors to develop a mine.

The technical feasibility and commercial viability of extracting a mineral resource is resolved when indicated resources are determined to exist. Upon determination of indicated resources, further development costs are capitalized.

The capitalized costs are presented as either tangible or intangible development assets according to the nature of the assets acquired. When a licence is relinquished or a project is abandoned, the related costs are recognized in profit or loss immediately.

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i. Development expenditure

Development expenditure incurred by or on behalf of the company is accumulated separately for each area of interest in which economically recoverable resources have been identified. Such expenditure comprises cost directly attributable to the construction of a mine and the related infrastructure.

General and administrative costs are allocated to a development asset only to the extent that those costs can be related directly to development activities in the relevant area of interest.

Once a development decision has been taken, development expenditure is classified under property, plant and equipment as "development properties".

A development property is reclassified as a "mining property" at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

No depreciation is recognised in respect of development properties until they are reclassified as "mining properties".

Each development property is tested for impairment in accordance with the policy in note 4 m ii *Impairment*.

j. Mining properties

When further development expenditure is incurred in respect of a mining property after the commencement of production, such expenditure is carried forward as part of the mining property when it is probable that additional future economic benefits associated with the expenditure will flow to the consolidated entity. Otherwise such expenditure is classified as a cost of production.

Depreciation is charged using the units of production method, with separate calculations being made for each area of interest. The units-of-production basis results in a depreciation charge proportional to the depletion of indicated and inferred resources.

Mine properties are tested for impairment in accordance with the policy in note 4 m ii *Impairment*.

k. Decommissioning and site rehabilitation provision

The company records the present value of estimated costs of legal and constructive

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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 is attributable to development when the asset is installed or the environment is disturbed at the production location. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore.

The periodic unwinding of the discount applied in establishing the net present value of provisions due to the passage of time is recognised in the statement of comprehensive income as a finance cost. Additional disturbances or changes in rehabilitation estimate attributable to development will be recognised as additions or charges to the corresponding assets and rehabilitation liability when they occur.

Where a closure and environmental obligation arises from production activities, the costs are expensed as incurred because there are no associated economic benefits.

1. Intangible assets

Capitalized development expenditure (such as mineral rights) are carried at cost and amortised using a units-of-production method based on the reserves that exist in the location that has access to such rights. Other identifiable intangible assets with a finite life are amortised on a straight-line basis over their expected useful life, or over the remaining life of the mine if shorter. The company has no identifiable intangible assets for which the expected useful life is indefinite.

Estimates of residual values and useful lives are reassessed at least at each financial year-end, and any change in estimate is taken into account in the determination of future amortization charges.

Intangible assets are tested for impairment in accordance with the policy in note 4 m ii *Impairment*.

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m. Impairment

i. Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

ii. Non-financial assets

The carrying amounts of the company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or the cash-generating unit (the mine operation) is the greater of its value in use and its fair value less costs to sell. In assessing recoverable amounts, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU").

An impairment loss is recognised if the carrying amount of an asset or the CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of the CGU are allocated to reduce the carrying amount of long-lived assets in the unit on a pro rata basis.

Non-financial assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized into earnings immediately.

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n. Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The company recognises neither the deferred tax asset regarding the temporary difference on the rehabilitation liability, nor the corresponding deferred tax liability regarding the temporary difference on the rehabilitation asset.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

i. Royalties

Royalties, resource rent taxes and revenue-based taxes are accounted for under taxes when they have the characteristics of an income tax. This is considered to be

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the case when they are imposed under Government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue – after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognised as current provisions and included in cost of sales. The royalties incurred by the company are considered not to meet the criteria to be treated as part of income tax.

o. Share-based payments

i. Share-based payment transactions

Employees (including directors and senior executives) of the company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the company, as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

ii. Equity-settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted using the Black-Scholes option-pricing model.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus. No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional

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expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

p. Revenue recognition

Company policy requires all production to be sold under contract. Revenue is only recognised on individual shipments when persuasive evidence exists that the following criteria are satisfied:

- The significant risks and rewards of ownership of the product have been transferred to the buyer;
- Neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold has been retained;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the sale will flow to the company; and
- The costs incurred or to be incurred in respect of the sale can be measured reliably.

Satisfaction of these conditions depends on the terms of trade with individual customers. Generally the risks and rewards are considered to have transferred to the customer when title and insurable risk of loss transfer.

Certain products are sold on a 'provisional pricing' basis where the sale price received by the group is subject to a final adjustment at the end of a period that may be up to 60 days after delivery to the customer. The final sale price is based on the market price on the quotational date in the contract of sale. Sales are initially recognised when the revenue recognition criteria have been satisfied, using market prices at that date. At each reporting date the provisionally priced shipment is marked to market based on the forward selling price for the quotational point specified in the contract until that point is reached. Revenue is only recognised on this basis where the forward selling price can be reliably measured.

Many of the Company's sales are subject to an adjustment based on inspection of the shipment by the customer. In such cases, revenue is recognised based on the group's best estimate of the grade at the time of shipment, and any subsequent adjustments are recorded against revenue when advised. Historically, the differences between estimated and actual

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grade have not been significant.

q. Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of Excellon by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. Excellon's potentially dilutive common shares comprise stock options granted to employees, and warrants.

5. TRANSITION TO IFRS

The effect of the company's transition to IFRS is summarized in this note as follows:

- a.* Transition elections
- b.* Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS
- c.* Adjustments to the statement of cash flows
- d.* Additional IFRS information for the year ended December 31, 2010

a. Transition elections

The company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

	As described in note 5b.
Cumulative translation adjustment	i.
Rehabilitation provision	ii.
Business combinations	iii.
Share based payments	iv.

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b. Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

Equity	Note 5b	Dec 31, 2010 \$	Mar 31, 2010 \$	Jan 1, 2010 \$
Equity as reported under Canadian GAAP		30,766	30,626	30,200
Accumulated other comprehensive loss				
Cumulative translation adjustment	i.	2,534	2,534	2,534
		2,534	2,534	2,534
Deficit				
Cumulative translation adjustment	i.	(2,534)	(2,534)	(2,534)
Rehabilitation provision	ii	101	70	65
Rehabilitation cost	ii	(108)	(24)	(63)
		(2,541)	(2,488)	(2,532)
Equity as reported under IFRS		30,759	30,672	30,202

Comprehensive income (loss)	Note 5b	Year ended Dec 31, 2010 \$	Three months ended Mar 31, 2010 \$
As reported under Canadian GAAP		(2,281)	148
Increase (decrease) in net income for:			
Decommissioning and site rehabilitation impact	ii.	(9)	44
Share based payment expense	iv.	(104)	(39)
		(113)	5
As reported under IFRS		(2,394)	153

Explanatory notes

- i.* In accordance with IFRS 1 (first time adoption of IFRS) transitional provisions, the company has elected to reset the cumulative translation account, which includes gains and losses arising from the translation of foreign operations, to zero at the date of transition to IFRS. The cumulative translation account has decreased and the deficit has been increased by \$2,534.

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- ii. Similar to Canadian GAAP, when a decommissioning and site rehabilitation provision (asset retirement obligation) is established, the company is required to set up a corresponding asset and depreciate it over the remaining useful life of the asset. Any changes in the rehabilitation provision are added to or subtracted from the cost of the asset to which the obligation relates. In accordance with IFRS 1 transitional provisions, the company elected to take a simplified approach to calculate and record the asset related to the rehabilitation provision in the opening IFRS consolidated balance sheets. The rehabilitation provision on the transition date calculated in accordance with IFRS is discounted back to the date when the provision first arose, at which date the corresponding asset is set up. This asset is then depreciated to its carrying amount at the transition date.

The rehabilitation provision calculated at the transition date has decreased the carrying amount of the previous asset retirement obligation recognized under Canadian GAAP by \$65 and the deficit has been reduced. The corresponding asset has also decreased but by \$63 net of depreciation and the deficit has been charged.

Over time the provision is impacted by the unwinding of the discount rate used to determine its carrying value. This unwinding amount is referred to as accretion and is recognized in the statement of income as a finance cost. Likewise the rehabilitation cost is amortized.

The rehabilitation provision calculated at March 31, 2010 has decreased the carrying amount of the previous asset retirement obligation recognized under Canadian GAAP by \$70 and the deficit has been reduced (December 31, 2010 - \$101). The corresponding asset has also decreased but by \$24 net of depreciation and the deficit has been charged (December 31, 2010 - \$108).

- iii. In accordance with IFRS 1 transitional provisions, the company elected to apply IFRS relating to business combinations prospectively from January 1, 2010. There were no adjustments arising from this election as all acquired assets and liabilities conformed to IFRS.

- iv. In accordance with IFRS 1 transitional provisions, the company elected to apply IFRS relating to share-based payments retrospectively to outstanding stock options that had not vested prior to January 1, 2010. There were no adjustments arising from this election as all outstanding stock options had vested by January 1, 2010.

Subsequent to the transition date, increases in the amortization of the fair value of vested stock options were required under IFRS in the amounts of \$39 at March 31, 2010 and \$104 at December 31, 2010.

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c. Adjustments to the statement of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the company except that, under IFRS, cash flows relating to interest are classified in a consistent manner as operating, investing or financing each period. Under Canadian GAAP, cash flows relating to interest payments were classified as operating.

d. Additional IFRS information for the year ended December 31, 2010

i. Intangible assets

The following intangible assets included in assets as at December 31, 2010, were previously classified within mineral properties:

	Dec 31, 2010	Jan 1, 2010
	\$	\$
Cost	21,099	22,768
Amortization	(12,516)	(12,743)
	<u>8,583</u>	<u>10,025</u>

IFRS 6 recognizes that some exploration and evaluation assets are intangible and others are tangible. Management determined that within the assets previously grouped as mineral properties under Canadian GAAP, the nature of certain acquisition costs and mineral rights is intangible. These assets are now classified as intangibles. The remaining tangible assets previously grouped as mineral properties have been reclassified to property, plant and equipment as mining properties (note 6).

ii. Provisions

The following provisions included in liabilities at December 31, 2010, were previously presented separately but are now grouped together.

	Dec 31, 2010	Jan 1, 2010
	\$	\$
Post-employment benefits	987	109
Rehabilitation	388	348
	<u>1,375</u>	<u>457</u>

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6. INVENTORIES

	Mar 31, 2011 \$	Dec 31, 2010 \$	Jan 1, 2010 \$
Ore	244	76	216
Concentrate	-	436	-
Production Spares	1,208	871	220
	<u>1,452</u>	<u>1,383</u>	<u>436</u>

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7. PROPERTY, PLANT AND EQUIPMENT

	Mining properties \$	Mining equipment \$	Buildings \$	Processing equipment \$	Assets under construction \$	Total \$
At January 1, 2010						
Cost	21,405	4,151	777	6,481	3,698	36,512
Accumulated depreciation	(12,027)	(1,276)	(523)	(405)	-	(14,231)
Net book value	<u>9,378</u>	<u>2,875</u>	<u>254</u>	<u>6,076</u>	<u>3,698</u>	<u>22,281</u>
Year ended December 31, 2010						
Opening net book value	9,378	2,875	254	6,076	3,698	22,281
Additions	-	2,386	1,701	13	-	4,100
Disposals	-	-	-	-	-	-
Depreciation for the period	(665)	(630)	(245)	(578)	-	(2,118)
Exchange differences	137	135	5	299	270	846
Impairment	(1,304)	-	-	-	-	(1,304)
Closing net book value	<u>7,546</u>	<u>4,766</u>	<u>1,715</u>	<u>5,810</u>	<u>3,968</u>	<u>23,805</u>
At January 1, 2011						
Cost	20,108	6,611	2,502	7,127	3,968	40,316
Accumulated depreciation	(12,562)	(1,845)	(787)	(1,317)	-	(16,511)
	<u>7,546</u>	<u>4,766</u>	<u>1,715</u>	<u>5,810</u>	<u>3,968</u>	<u>23,805</u>
Period ended March 31, 2011						
Opening net book value	7,546	4,766	1,715	5,810	3,968	23,805
Additions	209	40	4	-	135	388
Disposals	-	(42)	-	-	-	(42)
Depreciation for the period	(269)	(135)	(30)	(223)	-	(657)
Exchange differences	293	163	59	13	148	676
Impairment	-	-	-	-	-	-
Closing net book value	<u>7,779</u>	<u>4,792</u>	<u>1,748</u>	<u>5,600</u>	<u>4,251</u>	<u>24,170</u>
At March 31, 2011						
Cost	20,864	6,817	2,587	7,136	4,251	41,655
Accumulated depreciation	(13,085)	(2,025)	(839)	(1,536)	-	(17,485)
	<u>7,779</u>	<u>4,792</u>	<u>1,748</u>	<u>5,600</u>	<u>4,251</u>	<u>24,170</u>

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8. INTANGIBLE ASSETS

	Mineral rights \$
At January 1, 2010	
Cost	2,221
Accumulated depreciation	(463)
Net book value	<u>1,758</u>
Year ended December 31, 2010	
Opening net book value	1,758
Additions	-
Disposals	-
Depreciation for the period	(181)
Exchange differences	393
Impairment	-
Closing net book value	<u>1,970</u>
At January 1, 2011	
Cost	2,547
Accumulated depreciation	(577)
	<u>1,970</u>
Period ended March 31, 2011	
Opening net book value	1,970
Additions	51
Disposals	-
Depreciation for the period	(40)
Exchange differences	67
Impairment	-
Closing net book value	<u>2,048</u>
At March 31, 2011	
Cost	2,685
Accumulated depreciation	(637)
	<u>2,048</u>

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9. PROVISIONS

	Post - retirement benefits (1) \$	Rehabilitation provision \$	Total \$
At January 1, 2010			
Opening balance	109	348	457
Year ended December 31, 2010			
Opening balance	109	348	457
Additions	878	-	878
Change in estimate	-	20	20
Accretion for the period	-	31	31
Exchange differences	-	(11)	(11)
Closing balance	987	388	1,375
Period ended March 31, 2011			
Opening net book value	987	388	1,375
Additions	48	-	48
Change in estimate	-	-	-
Accretion for the period	-	14	14
Exchange differences	23	-	23
Closing balance	1,058	402	1,460

- (1) Post-retirement benefits Under Mexican Labour Law, the company provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months wages plus 20 days wages for each year of service payable upon involuntary termination without just cause.

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10. SHARE CAPITAL

	Number of shares (000s)	\$
Opening balance at January 1, 2011	247,873	55,937
Issued in financing		
Issued on exercise of stock options	2,415	2,595
Exchange differences		-
Balance at March 31, 2011	<u>250,288</u>	<u>58,532</u>
Opening balance at January 1, 2010	241,414	53,166
Issued in financing	-	-
Issued on exercise of stock options	825	201
Exchange differences	-	
Balance at March 31, 2010	<u>242,239</u>	<u>53,367</u>

Stock options

The Company uses the fair value method of accounting for all stock-based payments to employees, directors and officers. Under this method, the Company recorded a stock compensation expense of \$336 for the quarter ended March 31, 2011 (March 31, 2010 - \$288) with a corresponding credit to contributed surplus. The fair value of the stock options granted at the date of the grant using the Black-Scholes pricing model assumes risk-free interest rates of 2.36% (2010 - 2.89%), no dividend yield, expected life of 5 years (2010 - 5 years) with an expected price volatility of 93.00% (2010 - 97.15%). Volatility is determined using daily volatility over the expected life of the options. A forfeiture rate of 2.99% is applied (2010 - 2.89%) and at March 31, 2011, there was \$1,107 of unamortized stock compensation expense (March 31, 2010 - \$455). During the quarter, options to acquire 2,415,000 (March 31, 2010 - 825,000) common shares were exercised for total proceeds of \$1,566 (March 31, 2010 - \$209). Upon exercise of these options, the fair value of the options in contributed surplus of \$1,029 (March 31, 2010 - \$131) was added to share capital.

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11. COMPENSATION OF KEY MANAGEMENT

Key management includes the company's directors and officers. Compensation awarded to key management included:

	Three months ended Mar 31, 2011	Three months ended Mar 31, 2010
	\$	\$
Salaries and short-term employee benefits	343	292
Share-based payments	241	265
	<u>584</u>	<u>557</u>

12. RELATED PARTIES

An officer of the company is a partner in a firm that provides legal services to the company. The company paid an aggregate of \$7 for the three months ended March 31, 2011 (March 31, 2010 - \$102).

13. INCOME TAX

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rate used for the year ended December 31, 2010 was 31% and the three months ended March 31, 2011 was 28%.

14. ECONOMIC DEPENDENCE

The company's sole customer is Consorcio Minero de Mexico Cormin Mex S.A. de C/V (a subsidiary within the Trafigura group of companies) accounting for 100% of sales of \$7,385 (March 31, 2010 - \$9,975) during the current period and 92% of the trade receivables balance at March 31, 2011 of \$1,854 (December 31, 2010 - \$1,732).