



## **Excellon Resources Inc.**

Condensed Interim Consolidated Financial Statements

September 30, 2015  
in thousands of U.S. dollars  
(unaudited)

### **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements; they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and approved by the Audit Committee and Board of Directors of the Company. The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

November 11, 2015

# Excellon Resources Inc.

## Condensed Interim Consolidated Statements of Financial Position

(unaudited) (in thousands of U.S. dollars)

		September 30, 2015	December 31, 2014
	Notes	\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,355	3,467
Trade receivables		1,573	1,778
Income taxes receivable		1,945	2,556
Inventories	3	1,429	2,364
Other current assets		1,857	1,552
		8,159	11,717
<b>Non-current assets</b>			
Property, plant and equipment	4	14,531	18,384
Mineral rights	5	4,948	5,975
Deferred income tax assets	10	7,979	7,735
<b>Total assets</b>		<b>35,617</b>	<b>43,811</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables		5,227	5,541
<b>Non-current liabilities</b>			
Provisions	6	1,872	1,984
<b>Total liabilities</b>		<b>7,099</b>	<b>7,525</b>
<b>Equity</b>			
Share capital	7	77,352	77,323
Contributed surplus		11,961	11,504
Accumulated other comprehensive income		(11,636)	(6,745)
Deficit		(49,159)	(45,796)
<b>Total equity</b>		<b>28,518</b>	<b>36,286</b>
<b>Total liabilities and equity</b>		<b>35,617</b>	<b>43,811</b>

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

Approved by the Board

Director

Director

"Timothy J. Ryan"

"Alan R. McFarland"

# Excellon Resources Inc.

## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three and nine months ended September 30, 2015 and 2014

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

	Notes	Three months ended		Nine months ended	
		Sept 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
		\$	\$	\$	\$
Revenues	12	4,599	7,205	13,690	26,533
Production Costs		(3,720)	(6,405)	(12,293)	(18,824)
Depletion and amortization		(743)	(942)	(2,405)	(2,982)
Cost of Sales	8a	(4,463)	(7,347)	(14,698)	(21,806)
<b>Gross profit (loss)</b>		136	(142)	(1,008)	4,727
Administrative expenses		(515)	(827)	(1,677)	(2,539)
Share based payments	7	(118)	(126)	(510)	(595)
Depletion and amortization		(46)	(60)	(146)	(206)
General and administrative expenses	8b	(679)	(1,013)	(2,333)	(3,340)
Exploration		(148)	(1,282)	(562)	(1,800)
Other income (expense)	8c	(606)	71	(778)	290
Impairment of mineral rights		-	(15,463)	-	(15,463)
Finance costs		(21)	(22)	(65)	(66)
<b>Loss before income tax</b>		(1,318)	(17,851)	(4,746)	(15,652)
Income tax recovery (expense)	10	13	(19)	1,383	(1,054)
<b>Net loss</b>		(1,305)	(17,870)	(3,363)	(16,706)
<b>Other comprehensive loss</b>					
Foreign currency translation differences		(2,941)	(2,408)	(4,891)	(2,467)
<b>Total other comprehensive loss</b>		(2,941)	(2,408)	(4,891)	(2,467)
<b>Total comprehensive loss</b>		(4,246)	(20,278)	(8,254)	(19,173)
<b>Loss per share</b>					
Basic		\$ (0.02)	\$ (0.33)	\$ (0.06)	\$ (0.30)
Diluted		\$ (0.02)	\$ (0.32)	\$ (0.06)	\$ (0.30)
<b>Weighted average number of shares</b>					
Basic		54,958,121	54,940,312	54,950,639	54,966,061
Diluted		55,303,871	55,028,050	55,303,871	55,042,026

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

## Excellon Resources Inc.

### Condensed Interim Consolidated Statements of Changes in Equity

For the Nine months ended September 30, 2015 and 2014

(unaudited) (in thousands of U.S. dollars)

	Share capital \$	Contributed surplus \$	Accumulated other com- prehensive income (loss) \$	Deficit \$	Total equity \$
<b>Balance - January 1, 2014</b>	77,434	10,676	(1,955)	(26,504)	59,651
Net loss for the period	-	-	-	(16,706)	(16,706)
Total other comprehensive loss	-	-	(2,467)	-	(2,467)
Total comprehensive loss	-	-	(2,467)	(16,706)	(19,173)
Employee share options:					
Value of services recognized	2	427	-	-	429
Proceeds on issuing shares	3	-	-	-	3
Repurchased shares under normal course issuer bid	(104)	10	-	-	(94)
<b>Balance - September 30, 2014</b>	77,335	11,113	(4,422)	(43,210)	40,816
<b>Balance - January 1, 2015</b>	77,323	11,504	(6,745)	(45,796)	36,286
Net loss for the period	-	-	-	(3,363)	(3,363)
Total other comprehensive loss	-	-	(4,891)	-	(4,891)
Total comprehensive loss	-	-	(4,891)	(3,363)	(8,254)
Employee share options:					
Value of services recognized	-	172	-	-	172
Deferred and Restricted share units					
Value of units recognized	29	285	-	-	314
<b>Balance - September 30, 2015</b>	77,352	11,961	(11,636)	(49,159)	28,518

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# Excellon Resources Inc.

## Condensed Interim Consolidated Statements of Cash Flow

For the three and Nine months ended September 30, 2015 and 2014

(in thousands of U.S. dollars)

	Three months ended		Nine months ended	
	Sept 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
	\$	\$	\$	\$
<b>Cash flow provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	(1,305)	(17,870)	(3,363)	(16,706)
Adjustments for:				
Depletion and amortization	789	1,002	2,551	3,188
Deferred income tax	728	18	(244)	343
Share-based compensation	118	126	510	595
Post-employment benefits	36	21	120	62
Rehabilitation provision - accretion	16	22	51	65
Unrealized loss (gain) on marketable securities	-	403	-	49
Unrealized loss (gain) on foreign intercompany loans	-	(262)	-	(378)
Impairment of mineral rights	-	15,463	-	15,463
Operating cash flows before changes in working capital	382	(1,077)	(375)	2,681
Changes in items of working capital:				
Trade receivables	79	1,233	205	1,076
Income taxes receivable	714	153	611	619
Inventories	337	401	935	522
Other current assets	37	(199)	(305)	(426)
Trade payables	(61)	240	(314)	559
<b>Net cash provided by (used in) operating activities</b>	<b>1,488</b>	<b>751</b>	<b>757</b>	<b>5,031</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(134)	(1,048)	(793)	(1,960)
Purchase of mineral rights	-	-	(10)	-
<b>Net cash used in investing activities</b>	<b>(134)</b>	<b>(1,048)</b>	<b>(803)</b>	<b>(1,960)</b>
<b>Financing activities</b>				
Proceeds on issuance of shares	-	-	-	3
Repurchased shares under normal course issuer bid	-	(47)	-	(94)
<b>Net cash used in financing activities</b>	<b>-</b>	<b>(47)</b>	<b>-</b>	<b>(91)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,332)</b>	<b>(572)</b>	<b>(2,066)</b>	<b>(552)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>22</b>	<b>(916)</b>	<b>(2,112)</b>	<b>2,428</b>
<b>Cash and cash equivalents - Beginning of the period</b>	<b>1,333</b>	<b>5,935</b>	<b>3,467</b>	<b>2,591</b>
<b>Cash and cash equivalents - End of the period</b>	<b>1,355</b>	<b>5,019</b>	<b>1,355</b>	<b>5,019</b>
Interest	5	-	14	-
Cash paid for income tax	54	79	239	150

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

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Unaudited) (in thousands of U.S. dollars, except share data)

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### 1. GENERAL INFORMATION

Excellon Resources Inc. and its subsidiaries (together the Company or Excellon) are involved in the exploration, development and extraction of high-grade silver-lead-zinc metals in Mexico.

Excellon is domiciled in Canada and incorporated under the laws of the province of Ontario. The address of its principal office is 20 Victoria Street, Suite 900, Toronto, Ontario, M5C 2N8, Canada.

### 2. BASIS OF PRESENTATION AND GOING CONCERN

#### *a. Statement of compliance*

These unaudited condensed interim consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the Chartered Professional Accountants of Canada including IAS 34 Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2014.

The accounting policies and the application adopted are consistent with those disclosed in Note 3 to the Company’s consolidated financial statements for the year ended December 31, 2014.

Areas of critical accounting estimates and judgments that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements are disclosed in Note 4 of the Company’s consolidated financial statements as at and for the year ended December 31, 2014.

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

These condensed interim consolidated financial statements were approved by the Board of Directors for issue on November 11, 2015.

#### *b. Going Concern*

These condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. Previously reported financial statements indicated that the Company must secure sufficient funding to cover continued reductions on margins should silver price remain at current price levels in order to meet current liabilities and capital expenditure requirements at its operating mine in Mexico. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management was pursuing financing alternatives to fund the Company's operations so it could continue as a going concern. Management plans where to secure the necessary financing through a combination of equity and debt instrument arrangements.

On November 2, 2015, the Company announced that it has arranged a fully subscribed financing of CAD\$6,000 as described in note 13. The proceeds from the financing will be used to implement the Optimization Plan at the Platosa Mine and for general corporate purposes. Accordingly, these condensed interim consolidated financial statements have been prepared under the assumption of the Company’s ability to continue as a going concern.

# Excellon Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and nine months ended September 30, 2015 and 2014  
(Unaudited) (in thousands of U.S. dollars, except share data)

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## 3. INVENTORIES

	September 30, 2015 \$	December 31, 2014 \$
Ore	49	165
Concentrate	-	275
Production spares	1,380	1,924
	1,429	2,364

As at September 30, 2015, the Company delivered the entire concentrate production at the mill leaving a nil balance.

# Excellon Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and nine months ended September 30, 2015 and 2014  
(Unaudited) (in thousands of U.S. dollars, except share data)

## 4. PROPERTY, PLANT AND EQUIPMENT

	Mining properties \$	Mining equipment \$	Processing equipment \$	Assets under construction \$	Total \$
At January 1, 2014					
Cost	25,293	12,055	7,829	30	45,207
Accumulated amortization	(14,189)	(5,676)	(4,182)	-	(24,047)
	11,104	6,379	3,647	30	21,160
<b>Year ended December 31, 2014</b>					
Opening net book value	11,104	6,379	3,647	30	21,160
Additions	1,973	883	21	463	3,340
Reclassification	-	-	132	(132)	-
Amortization	(1,441)	(1,394)	(849)	-	(3,684)
Write-down	-	(153)	-	(8)	(161)
Exchange differences	(1,251)	(647)	(340)	(33)	(2,271)
Closing net book value	10,385	5,068	2,611	320	18,384
At December 31, 2014					
Cost	24,482	11,072	7,094	320	42,968
Accumulated amortization	(14,097)	(6,004)	(4,483)	-	(24,584)
	10,385	5,068	2,611	320	18,384
<b>Period ended September 30, 2015</b>					
Opening net book value	10,385	5,068	2,611	320	18,384
Additions	669	-	-	124	793
Amortization	(981)	(810)	(512)	-	(2,303)
Exchange differences	(1,369)	(611)	(307)	(56)	(2,343)
Closing net book value	8,704	3,647	1,792	388	14,531
At September 30, 2015					
Cost	21,797	9,582	6,139	388	37,906
Accumulated amortization	(13,093)	(5,935)	(4,347)	-	(23,375)
	8,704	3,647	1,792	388	14,531



# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Unaudited) (in thousands of U.S. dollars, except share data)

### 5. MINERAL RIGHTS

	Platosa (Mexico) \$	Beschefer (Canada) \$	DeSantis (Canada) \$	Total \$
<b>At January 1, 2014</b>				
Cost	4,755	8,176	11,116	24,047
Accumulated amortization	(1,320)	-	-	(1,320)
	3,435	8,176	11,116	22,727
<b>Year ended December 31, 2014</b>				
Opening net book value	3,435	8,176	11,116	22,727
Amortization	(422)	-	-	(422)
Impairments (1)	-	(6,084)	(9,379)	(15,463)
Exchange differences	(53)	(369)	(445)	(867)
Closing net book value	2,960	1,723	1,292	5,975
<b>At December 31, 2014</b>				
Cost	4,534	1,723	1,292	7,549
Accumulated amortization	(1,574)	-	-	(1,574)
	2,960	1,723	1,292	5,975
<b>Period ended September 30, 2015</b>				
Opening net book value	2,960	1,723	1,292	5,975
Additions	10	-	-	10
Amortization	(248)	-	-	(248)
Exchange differences	(383)	(232)	(174)	(789)
Closing net book value	2,339	1,491	1,118	4,948
<b>At September 30, 2015</b>				
Cost	3,931	1,491	1,118	6,540
Accumulated amortization	(1,592)	-	-	(1,592)
	2,339	1,491	1,118	4,948

- (1) At September 30, 2014, the Company wrote down the value of its Beschefer and DeSantis exploration properties in Canada following a review of the Company's portfolio of mineral property assets. The impairment consideration was based on current valuations attributable to similar stage projects in similar jurisdictions, which valuations are related, in part, to current commodity prices, equity market conditions and the availability of exploration financing for such projects. The recoverable amounts of each property have been estimated to be less than its carrying value, resulting in an impairment of \$15,463 being recognized in 2014.

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Unaudited) (in thousands of U.S. dollars, except share data)

### 6. PROVISIONS

	Post-retirement benefits (1) \$	Rehabilitation provision \$	DSU and RSU \$	Total \$
<b>Year ended December 31, 2014</b>				
Opening balance	323	1,276	184	1,783
Change in estimate	423	104	-	527
Accretion for the year	-	86	-	86
Reclassified to contributed surplus (2)	-	-	(161)	(161)
Exchange differences	(77)	(151)	(23)	(251)
Closing Balance	669	1,315	-	1,984
<b>Period ended September 30, 2015</b>				
Opening balance	669	1,315	-	1,984
Change in estimate	120	-	-	120
Accretion for the period	-	51	-	51
Exchange differences	(101)	(182)	-	(283)
Closing Balance	688	1,184	-	1,872

- (1) Post-retirement benefits: The Company provides post retirement benefits supplements as well as leaving indemnities to employees at the Mexican operations. 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.

Key financial assumptions used in the above estimate include an annual discount rate of 6.5% (December 31, 2014 – 6.5%) based on the yield curve from short and long term Mexican government bonds, annual salary and minimum wage increase rate of 3.6% (December 31, 2014 – 3.6%) and the life of mine of five years.

- (2) Prior to the amendment of the DSU and RSU Plans in April 2014, the expense related to DSUs and RSUs granted in 2013 was credited to liabilities since the payment method was in cash. Upon the adoption of the amended DSU and RSU Plans in 2014, the balance was reclassified from provisions to equity under contributed surplus since the payment in cash or common shares is at the option of the Company.

# Excellon Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and nine months ended September 30, 2015 and 2014  
(Unaudited) (in thousands of U.S. dollars, except share data)

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## 7. SHARE CAPITAL

	Number of shares (000's)	\$
<b>Year ended December 31, 2014</b>		
Opening balance	54,989	77,434
Shares issued on exercise of stock options	3	5
Shares purchased under normal course issuer bid	(88)	(116)
Balance at December 31, 2014	54,904	77,323
<b>Period ended September 30, 2015</b>		
Opening balance	54,904	77,323
Exercise of DSU shares	55	29
Balance at September 30, 2015	54,959	77,352

### *SHARE OPTION PROGRAM (EQUITY-SETTLED)*

The Company has a share option program that entitles directors, officers, employees and consultants to purchase shares in the Company. Under the program, the Company may grant options for up to 10% of the common shares issued and outstanding. The exercise price of each option may not be less than the market price of the Company's common shares on the date of grant, and an option's maximum term is five years. Options may be granted by the board of directors at any time with varying vesting conditions.

## Excellon Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and nine months ended September 30, 2015 and 2014  
(Unaudited) (in thousands of U.S. dollars, except share data)

### *Disclosure of share option program*

The number and weighted average exercise prices of share options are as follows:

	<b>Weighted Average Exercise Price (CAD)</b>	<b>Options</b>
Outstanding at January 1, 2014	\$ 2.70	3,144,500
Granted	\$ 1.38	100,000
Exercised	\$ 1.14	(2,500)
Expired	\$ 2.81	(470,000)
Forfeited	\$ 1.87	(20,000)
Outstanding at December 31, 2014	\$ 2.65	2,752,000
Exercisable at December 31, 2014	\$ 2.88	2,216,160

Outstanding at January 1, 2015	2.65	2,752,000
Granted	\$ 0.58	665,000
Expired	\$ 4.95	(20,000)
Forfeited	\$ 0.82	(88,333)
Outstanding at September 30, 2015	\$ 2.27	3,308,667
Exercisable at September 30, 2015	\$ 2.62	2,662,836

As at September 30, 2015, the following stock options were outstanding and exercisable:

<b>CAD</b>	<b>Stock Options Outstanding</b>	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Stock Options Exercisable</b>	<b>Weighted Average Exercise Price (CAD)</b>
\$0.50 to \$0.99	615,001	4.51	221,676	\$ 0.58
\$1.14 to \$1.49	831,666	3.27	579,160	\$ 1.17
\$1.50 to \$1.99	130,000	2.67	130,000	\$ 1.73
\$2.00 to \$5.21	1,732,000	1.36	1,732,000	\$ 3.43
	3,308,667	2.48	2,662,836	\$ 2.62

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Unaudited) (in thousands of U.S. dollars, except share data)

### Inputs for measurement of grant date fair values

The grant date fair value of the share option program was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share option program were the following:

	<b>Nine months ended</b>	
	<b>Sept 30, 2015</b>	<b>2014</b>
Fair value at grant date	\$0.35	\$0.84
Share price at grant date	\$0.58	\$1.38
Exercise price	\$0.58	\$1.38
Risk free interest rate	0.61%	1.47%
Expected life of options in years	5.00	5.00
Expected volatility	73.89%	73.97%
Expected dividend yield	0.00%	0.00%
Estimated forfeiture rate	3.57%	4.09%

### Share-based compensation expense

Compensation expense is recognized over the vesting period of the grant with the corresponding equity impact recorded in contributed surplus. Share-based compensation expense is comprised of the following costs:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>Sept 30, 2015</b>	<b>Sept 30, 2014</b>	<b>Sept 30, 2015</b>	<b>Sept 30, 2014</b>
	<b>\$ (CAD)</b>	<b>\$ (CAD)</b>	<b>\$ (CAD)</b>	<b>\$ (CAD)</b>
Share options granted in 2012	-	6	-	73
Share options granted in 2013	21	115	66	372
Share options granted in 2014	1	25	8	43
Share options granted in 2015	25	-	128	-
	<b>47</b>	<b>146</b>	<b>202</b>	<b>488</b>

### *DEFERRED SHARE UNITS ("DSU")*

During 2013, the Company implemented a DSU plan for directors of the Corporation, which was subsequently amended and approved by the Company's shareholders on April 29, 2014. DSUs can be paid in cash or in awards of common shares either from treasury or from market purchases based on the five-day volume weighted average price ("Market Price") of the Company's publicly traded common shares on settlement dates elected by a director between the retirement date and December 15th of the calendar year subsequent to the year of the director's retirement. All grants under the plan are fully vested upon credit to an eligible directors' account. The value of the cash payout is determined by multiplying the number of DSUs vested at the payout date by the Market Price of the Company's shares. The expense is recorded in the consolidated statement of loss and comprehensive loss in share based payments and credited to equity under contributed surplus since the payment in cash or common shares is at the option of the Company.

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Unaudited) (in thousands of U.S. dollars, except share data)

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Prior to the amendment of the DSU Plan in 2014, the expense related to DSUs granted was credited to provisions since the settlement method was in cash. Upon the amendment of the DSU Plan, the balance was reclassified from provisions to equity under contributed surplus.

During the nine months ended September 30, 2015, the Company granted 705,524 DSUs (nine months ended September 30, 2014 – 103,762 DSUs) with a market value of CAD\$345 (nine months ended September 30, 2014 - CAD\$127) at the date of grant to non-executive directors as compensation in lieu of cash director fees. During the nine months ended September 30, 2015, there were 55,124 DSUs settled for common shares (nine months ended September 30, 2014 – nil).

Total share based compensation expensed in the nine months ended September 30, 2015 related to vested DSUs was CAD\$343 (nine months ended September 30, 2014 – CAD\$99). As at September 30, 2015, the Company has 1,021,826 outstanding DSUs.

### *RESTRICTED SHARE UNITS (“RSU”)*

During 2013, the Company implemented a RSU plan for officers and employees of the Corporation, which was subsequently amended and approved by the Company’s shareholders on April 29, 2014. The RSU Plan entitles officers or employees to either a cash payment or an award of common shares from treasury or from market purchases at the end of a term or performance period of up to three years following the date of the award. The value of the cash payout is determined by multiplying the number of RSUs vested at the payout date by the Market Price of the Company’s shares prior to a payout date with settlement in cash. The expense is recorded in the consolidated statement of loss and comprehensive loss in share based payments and credited to equity under contributed surplus since the payment in cash or common shares is at the option of the Company.

Prior to the amendment of the RSU Plan in 2014, the expense related to RSUs granted was credited to provisions since the payment method was in cash. Upon the adoption of the amended RSU Plan, the balance was reclassified from provisions to equity under contributed surplus.

During the nine months ended September 30, 2015 the Company granted 425,000 RSUs subject to performance vesting conditions (nine months ended September 30, 2014 – 15,000 RSUs subject to non-performance vesting conditions) with market value of CAD\$242 (nine months ended September 30, 2014 - CAD\$22) at the date of grant to officers and employees.

During the nine months ended September 30, 2015, there were no RSU settlements (nine months ended September 30, 2014 – nil).

Total share based compensation expensed in the nine months ended September 30, 2015 related to vested RSUs was CAD\$81 (nine months ended September 30, 2014 – CAD\$68). As at September 30, 2015, the Company has 718,507 outstanding RSUs.

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Unaudited) (in thousands of U.S. dollars, except share data)

### 8. EXPENSE BY NATURE

(a) Cost of sales comprises the following:

	Three months ended		Nine months ended	
	Sept 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
	\$	\$	\$	\$
Direct mining and milling costs (1)	3,602	5,979	11,959	17,967
Changes in inventories	118	426	334	857
Depletion, depreciation and amortization	743	942	2,405	2,982
<b>Cost of sales</b>	<b>4,463</b>	<b>7,347</b>	<b>14,698</b>	<b>21,806</b>

(1) Direct mining and milling costs include personnel, general and administrative, fuel and electricity, maintenance and repair costs as well as operating supplies, external services, third party smelting, refining and transport fees.

(b) General and administrative expenses consist of the following:

	Three months ended		Nine months ended	
	Sept 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
	\$	\$	\$	\$
Office and overhead costs	267	454	813	1,339
Salaries and wages	248	373	864	1,200
Share based compensation	118	126	510	595
Depletion and amortization	46	60	146	206
<b>General and administrative expenses</b>	<b>679</b>	<b>1,013</b>	<b>2,333</b>	<b>3,340</b>

(c) Other expense (income) consist of the following:

	Three months ended		Nine months ended	
	Sept 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
	\$	\$	\$	\$
Unrealized loss (gain) on marketable securities	-	403	-	49
Foreign exchange loss (gain)	606	(474)	778	(339)
<b>Other expense (income)</b>	<b>606</b>	<b>(71)</b>	<b>778</b>	<b>(290)</b>

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Unaudited) (in thousands of U.S. dollars, except share data)

### 9. RELATED PARTIES

The corporate secretary of the Company is a partner in a firm that provides legal services to the Company. During the three month ended September 30, 2015, the Company incurred legal services of \$14 (three months ended September 30, 2014 - \$6). During the nine months ended September 30, 2015, the Company incurred legal services of \$47 (nine months ended September 30, 2014 - \$38) with an outstanding payable balance of \$55 at September 30, 2015 (September 30, 2014 - \$7).

### 10. 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, 2014 was 26.5% and the nine months ended September 30, 2015 was 26.5%.

In 2013, the Mexican tax authority (Servicio de Administración Tributaria – "SAT") in the state of Zacatecas completed an income tax audit of the 2008 and 2009 years in respect of one of the Company's Mexican subsidiaries. As a result of this audit, on February 24, 2014 and March 13, 2014 the Company received notice of reassessments from SAT for 2009 and 2008, respectively, denying deductions in the amount of 115.2 million pesos (\$6,800) and 72.9 million pesos (\$4,300), respectively, that relate primarily to foreign exchange losses. The combined impact of the 2009 and 2008 reassessments is a reduction in the available non-capital loss balance totaling 188.1 million pesos (\$11,100), which, consequently, would result in a reduction in the deferred tax asset balance of \$3,300 and a corresponding increase in deferred income tax expense. Management was of the view that there was a strong case to support the Company's position, particularly because the SAT only made adjustments to foreign exchange losses but did not make offsetting adjustments to foreign exchange gains recognized in the same period. Accordingly, the Company appealed the 2008 and 2009 reassessments through the SAT's appeal procedures.

In December 2014, the Company was notified by SAT that a favourable resolution had been issued, confirming the Company's tax treatment of the foreign exchange losses in its 2009 annual tax return. In October 2015, the Company was notified by the SAT that a further favourable resolution had been issued, confirming the Company's tax treatment of the foreign exchange losses in its 2008 annual tax return. The Company expects to receive formal tax reassessment notices from the SAT reflecting these favourable resolutions for both 2009 and 2008. Accordingly, management believes, based on the tax advice from its tax advisors that it is more likely than not that the Company's position will be sustained and no amounts related to this issue has been recorded in the financial statements as of September 30, 2015 and December 31, 2014

### 11. SEGMENT REPORTING

	MEXICO		CANADA		TOTAL	
	Sept 30, 2015	Dec 31, 2014	Sept 30, 2015	Dec 31, 2014	Sept 30, 2015	Dec 31, 2014
	\$	\$	\$	\$	\$	\$
Property, plant and equipment	14,531	18,384	-	-	14,531	18,384
Capital expenditures	(793)	(3,340)	-	-	(793)	(3,340)
Mineral rights	2,339	2,960	2,609	3,015	4,948	5,975
Total assets	31,834	38,655	3,783	5,156	35,617	43,811



# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2015 and 2014 (Unaudited) (in thousands of U.S. dollars, except share data)

	Three months ended		Nine months ended	
	Sept 30, 2015 \$	Sept 30, 2014 \$	Sept 30, 2015 \$	Sept 30, 2014 \$
<b>MEXICO</b>				
Revenue	4,599	7,205	13,690	26,533
Cost of sales	(4,463)	(7,347)	(14,698)	(21,806)
Exploration	(134)	(1,188)	(517)	(1,771)
Other expenses	(313)	174	(195)	140
Net finance costs	(21)	(22)	(65)	(66)
Income tax	13	(19)	1,383	(1,054)
Net income (loss)	(319)	(1,197)	(402)	1,976
<b>CANADA</b>				
General and administrative expenses	(679)	(1,013)	(2,333)	(3,340)
Exploration	(14)	(94)	(45)	(29)
Other expenses	(293)	(103)	(583)	150
Impairment of mineral rights	-	(15,463)	-	(15,463)
Net income (loss)	(986)	(16,673)	(2,961)	(18,682)
<b>Net income (loss)</b>	<b>(1,305)</b>	<b>(17,870)</b>	<b>(3,363)</b>	<b>(16,706)</b>

## 12. REVENUES

Under the terms of the Company's concentrate sales contracts, lead-silver and zinc-silver concentrates are sold on a provisional pricing basis whereby sales are recognized at prevailing metal prices when the revenue recognition criteria have been met, namely when title, and risks and rewards of ownership have transferred to the customer. Revenue is recorded net of treatment and refining charges. Final pricing of each delivery is not determined until one or two months post-delivery. The price recorded at the time of sale may differ from the actual final price received from the customer due to changes in market prices for metals. The price volatility is considered an embedded derivative in accounts receivable. The embedded derivative is recorded at fair value at each reporting period until settlement occurs, with the changes in fair value recorded to revenues.

During the three months ended September 30, 2015, the Company recognized negative adjustment to revenues of \$37 related to sales made prior to July 1, 2015 as receivables were ultimately settled at lower values during the quarter (three months ended September 30, 2014 – positive adjustment of \$19).

During the nine months ended September 30, 2015, the Company recognized positive adjustment to revenues of \$135 primarily related to the reversal of the mark to market taken at the end of 2014 as receivables were ultimately settled at higher values in 2015 (nine months ended September 30, 2014 – positive adjustment of \$893).

As at September 30, 2015, unsettled provisionally priced sales totalled \$2,987. A 10% increase or decrease in the price of silver, lead and zinc will result in a corresponding increase or decrease in revenues of \$299 during the fourth quarter of 2015.

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2015 and 2014

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

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### 13. SUBSEQUENT EVENTS

On November 2, 2015 the Company announced that it had arranged a fully subscribed financing of CAD\$6,000 through the private placement of CAD\$5,100 principal amount of secured convertible debentures of the Company (the "Debentures") and the sale of a net smelter return royalty (the "NSR") on the Platosa Project for CAD\$900 (collectively, the "Financing"). The proceeds from the Financing will be used to implement the Optimization Plan at the Platosa Mine and for general corporate purposes.

The Debentures have a term of four years and are convertible into common shares ("Common Shares") of the Company prior to maturity at a conversion price of CAD\$0.50 per Common Share. The Debentures shall bear interest at an annual rate of 3.75%, payable in cash semi-annually. Interest on the Debentures may alternatively be paid in Common Shares of the Company at the Company's option based on (i) the 10-day volume-weighted average price ("VWAP") of the Common Shares prior to the payment date and (ii) an effective rate of interest of 5% for the applicable period.

On or after the second anniversary of the date of issue and prior to maturity, the Company may accelerate the conversion of the Debentures as follows: (i) 50% of the principal amount, provided that the 20-day VWAP of the Common Shares is CAD\$1.10; and (ii) the remaining 50% principal amount provided that the 20-day VWAP of the Common Shares is CAD\$1.40.

The purchasers of the Debentures shall also be entitled to 1,999,200 Common Share purchase warrants ("Warrants"). Each Warrant shall be exercisable at a price of CAD\$0.50 for a period of four years from the date of issuance.

On the second anniversary of the closing of the Financing (the "Put Date"), Debenture holders shall have the option to request repayment in cash of the outstanding principal amount of the Debentures plus accrued interest by providing the Company with two months prior written notice and a one month period for repayment following the Put Date.

The NSR shall apply to the Platosa Project and bear a rate of either (a) 1.25% in respect of manto or mineralization other than skarn mineralization or (b) 0.50% in respect of skarn or "Source" mineralization.

In connection with the Financing, the Company has agreed to grant 480,000 broker warrants (the "Broker Warrants") entitling the holder to purchase one Common Share at an exercise price of CAD\$0.50 per Common Share for a period of three years from the closing of the Financing. The Common Shares underlying the Debentures, Warrants and Broker Warrants shall be subject to a four-month hold period following closing of the Financing in accordance with applicable securities legislation.

The Financing is subject to final documentation and is expected to close on or about November 16, 2015.