



Excellon Resources Inc.

Condensed Interim Consolidated Financial Statements

March 31, 2017

in thousands of U.S. dollars

(unaudited)

Excellon Resources Inc.

Condensed Interim Consolidated Statements of Financial Position

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

		March 31, 2017	December 31, 2016
	Notes	\$	\$
Assets			
Current assets			
Cash and cash equivalents		1,580	5,409
Marketable securities	3	3,045	1,521
Trade receivables		1,085	738
VAT receivables	4	3,173	2,614
Income taxes receivable	15	1,167	1,120
Inventories	5	2,127	2,151
Other current assets		1,311	1,071
		13,488	14,624
Non-current assets			
Property, plant and equipment	6	21,450	17,267
Mineral rights	7	3,131	3,119
Deferred income tax assets	15	10,082	9,789
Total assets		48,151	44,799
Liabilities			
Current liabilities			
Trade payables	8	5,884	4,514
VAT payables	5	1,449	1,556
		7,333	6,070
Non-current liabilities			
Convertible Debt	9	3,065	2,958
Embedded Derivative Liability	9	9,104	10,068
Purchase Warrants	9	1,623	1,673
Provisions	10	1,688	1,455
Total liabilities		22,813	22,224
Equity			
Share capital	11	88,868	88,807
Contributed surplus		15,264	14,719
Accumulated other comprehensive income		(13,052)	(16,044)
Deficit		(65,742)	(64,907)
Total equity		25,338	22,575
Total liabilities and equity		48,151	44,799
Commitments (note 12)			

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 Income (loss)

For the three months ended March 31, 2017 and 2016

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

	Notes	March 31, 2017 \$	March 31, 2016 \$
Revenues	13	3,413	4,261
Production Costs		(4,025)	(3,269)
Depletion and amortization		(546)	(605)
Cost of Sales	14a	(4,571)	(3,874)
Gross profit (loss)		(1,158)	387
Administrative expenses		(725)	(505)
Share based payments	11	(569)	(108)
Depletion and amortization		(41)	(41)
General and administrative expenses	14b	(1,335)	(654)
Exploration		(564)	(137)
Other income (expense)	14c	1,713	(367)
Finance income (cost)	15	1,263	(1,980)
Loss before income tax		(81)	(2,751)
Income tax recovery	16	(754)	125
Net loss		(835)	(2,626)
Other comprehensive income			
Foreign currency translation differences		2,992	21
Total other comprehensive income		2,992	21
Total comprehensive income (loss)		2,157	(2,605)
Loss per share			
Basic		\$ (0.01)	\$ (0.05)
Diluted		\$ (0.01)	\$ (0.05)
Weighted average number of shares			
Basic		76,104,997	54,999,442
Diluted		82,049,517	56,268,640

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 three months ended March 31, 2017 and 2016

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

	Share capital \$	Contributed surplus \$	Accumulated other com- prehensive income (loss) \$	Deficit \$	Total equity \$
Balance - January 1, 2016	77,362	12,159	(12,284)	(50,836)	26,401
Net loss for the period	-	-	-	(2,626)	(2,626)
Total other comprehensive income	-	-	21	-	21
Total comprehensive income	-	-	21	(2,626)	(2,605)
Employee share options:					
Value of services recognized	-	18	-	-	18
Deferred and Restricted share units					
Value of units recognized	-	90	-	-	90
Balance - March 31, 2016	77,362	12,267	(12,263)	(53,462)	23,904
Balance - January 1, 2017	88,807	14,719	(16,044)	(64,907)	22,575
Net loss for the period	-	-	-	(835)	(835)
Total other comprehensive income	-	-	2,992	-	2,992
Total comprehensive income	-	-	2,992	(835)	2,157
Employee share options:					
Value of services recognized	-	121	-	-	121
Proceeds on issuing shares	7	-	-	-	7
Deferred and Restricted share units					
Value of units recognized	24	424	-	-	448
Conversion of Convertible Debentures	30	-	-	-	30
Balance - March 31, 2017	88,868	15,264	(13,052)	(65,742)	25,338

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

Excellon Resources Inc.

Condensed Interim Consolidated Statements of Cash Flow

For the three months ended March 31, 2017 and 2016

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

	March 31, 2017 \$	March 31, 2016 \$
Cash flow provided by (used in)		
Operating activities		
Net loss for the period	(835)	(2,626)
Adjustments for:		
Depletion and amortization	587	646
Deferred income tax	653	(56)
Share-based compensation	569	108
Post-employment benefits	71	24
Rehabilitation provision - accretion	12	9
Writedown of property, plant and equipment	-	185
Convertible debentures - accretion	108	81
Unrealized loss (gain) on warrants liability	(61)	321
Unrealized loss (gain) on embedded derivative liability	(1,021)	1,569
Unrealized gain on marketable securities	(1,520)	-
Operating cash flows before changes in working capital	(1,437)	261
Changes in items of working capital:		
Trade receivables	(347)	(619)
VAT receivable	(559)	(150)
Income taxes receivable	(47)	378
Inventories	24	58
Other current assets	(240)	(242)
Trade payables	1,370	(557)
VAT payable	(107)	1,263
Net cash from (used in) operating activities	(1,343)	392
Investing activities		
Purchase of property, plant and equipment	(2,845)	(603)
Net cash used in investing activities	(2,845)	(603)
Financing activities		
Proceeds from options exercised	7	-
Net cash provided by financing activities	7	-
Effect of exchange rate changes on cash and cash equivalents	352	239
Increase (decrease) in cash and cash equivalents	(3,829)	28
Cash and cash equivalents - Beginning of the period	5,409	3,506
Cash and cash equivalents - End of the period	1,580	3,534
Interest	22	-
Cash paid for income tax	35	21

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 months ended March 31, 2017 and 2016

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

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 registered office is 20 Victoria Street, Suite 900, Toronto, Ontario, M5C 2N8, Canada.

2. BASIS OF PRESENTATION

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 . ended December 31, 2016.

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, 2016.

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, 2016.

All financial information presented in United States dollars 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 May 10, 2017.

b. Accounting standards issued but not yet applied

IFRS 9, Financial instruments ("IFRS 9") was issued by the IASB in November 2009 and will replace IAS 39, "Financial instruments: recognition and measurement" ("IAS 39"). IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

IFRS 15, Revenue from contracts with Customers ("IFRS 15") was issued by the IASB in May 2014. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on January 1, 2018. The Company is currently evaluating the impact this standard is expected to have on its consolidated financial statements.

Excellon Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2017 and 2016

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

IFRS 16, Leases (“IFRS 16”) was issued on January 13, 2016. The new standard brings most leases onto the balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

The Company plans to adopt these IFRS accounting standards when these standards become effective, if applicable.

3. MARKETABLE SECURITIES

During Q2 2016, the Company completed the sale of the DeSantis Property to Osisko Mining Inc. (“Osisko”) for 837,000 (\$843) common shares of Osisko net of commission fees. These securities have been classified as a HFT financial instrument during the period. During the three months ended March 31, 2017, an unrealized gain of \$1,510 was recorded into income in recognition of an increase in the value of the Osisko common shares as at March 31, 2017. In April 2017, the Company sold the 837,000 Osisko common shares for net proceeds of \$3,272 (CAD\$4,398).

4. VAT RECEIVABLES

VAT (value added tax) receivables comprises of the total VAT credits recoverable by each of the Company’s Mexican subsidiaries. In Mexico, VAT credits can only be applied to VAT payable specific to each entity and are non-transferable. The Company’s VAT payable position is reflected separately on the balance sheet.

5. INVENTORIES

	March 31, 2017 \$	December 31, 2016 \$
Ore	98	54
Concentrate	12	465
Production spares	2,017	1,632
	2,127	2,151

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Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2017 and 2016

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

6. PROPERTY, PLANT AND EQUIPMENT

	Mining properties \$	Mining equipment \$	Processing equipment \$	Assets under construction \$	Total \$
At January 1, 2016					
Cost	21,604	9,607	6,068	813	38,092
Accumulated amortization	(13,103)	(6,048)	(4,442)	-	(23,593)
	8,501	3,559	1,626	813	14,499
Year ended December 31, 2016					
Opening net book value	8,501	3,559	1,626	813	14,499
Additions	1,283	1,779	114	5,017	8,193
Reclassification	-	-	-	-	-
Disposals	29	(179)	-	-	(150)
Amortization	(1,220)	(713)	(396)	-	(2,329)
Write-down	-	-	-	-	-
Exchange differences	(1,321)	(681)	(245)	(699)	(2,946)
Closing net book value	7,272	3,765	1,099	5,131	17,267
At December 31, 2016					
Cost	20,434	9,346	4,910	5,131	39,821
Accumulated amortization	(13,162)	(5,581)	(3,811)	-	(22,554)
	7,272	3,765	1,099	5,131	17,267
Period ended March 31, 2017					
Opening net book value	7,272	3,765	1,099	5,131	17,267
Additions (1)	231	154	-	2,460	2,845
Reclassification	-	-	-	-	-
Disposals	-	-	-	-	-
Amortization	(281)	(176)	(68)	-	(525)
Write down	-	-	-	-	-
Exchange differences	667	369	103	724	1,863
Closing net book value	7,889	4,112	1,134	8,315	21,450
At March 31, 2017					
Cost	22,107	10,386	5,394	8,315	46,202
Accumulated amortization	(14,218)	(6,274)	(4,260)	-	(24,752)
	7,889	4,112	1,134	8,315	21,450

During the three months ended, the Company incurred capital expenditures of \$2,260 towards an optimization plan (the "Optimization Plan") currently classified as assets under construction, which is expected to be completed in Q2 2017.

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Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2017 and 2016

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

7. MINERAL RIGHTS

	Platosa (Mexico) \$	Beschefer (Canada) \$	Total \$
At January 1, 2016			
Cost	3,847	1,440	5,287
Accumulated amortization	(1,849)	-	(1,849)
	1,998	1,440	3,438
Year ended December 31, 2016			
Opening net book value	1,998	1,440	3,438
Amortization	(283)	-	(283)
Exchange differences	(86)	50	(36)
Closing net book value	1,629	1,490	3,119
At December 31, 2016			
Cost	3,564	1,490	5,054
Accumulated amortization	(1,935)	-	(1,935)
	1,629	1,490	3,119
Period ended March 31, 2017			
Opening net book value	1,629	1,490	3,119
Amortization	(62)	-	(62)
Exchange differences	64	10	74
Closing net book value	1,631	1,500	3,131
At March 31, 2017			
Cost	3,745	1,500	5,245
Accumulated amortization	(2,114)	-	(2,114)
	1,631	1,500	3,131

8. TRADE PAYABLES

The Company's trade payables comprise account payable and accruals as at March 31, 2017. Accounts payable account for \$4,472 of the balance, of which \$838 relate to the acquisition of mining equipment and \$934 relate to the Optimization Plan. Accruals of \$1,407 relate to operating costs, accounting, legal and statutory payroll withholding taxes.

9. DEBT

During Q4 2015, the Company completed a \$4,766 (CAD\$6,600) financing through the private placement of secured convertible debentures of the Company (the "Debentures") valued at \$4,040 (CAD\$5,610) and the sale of a net smelter return royalty (the "NSR") on the Platosa Project valued at \$726 (CAD\$990), collectively the "Debenture Financing".

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

The net proceeds from the Debenture Financing were budgeted for the Optimization Plan at the Platosa Mine and for general corporate purposes.

	At inception date \$	Fair value adjustments \$	December 31, 2015 \$
A - Proceeds from Convertible Debentures			
Gross proceeds	4,040	356	4,396
Less transaction costs	(277)	-	(277)
Net proceeds	3,763	356	4,119
B - Proceeds from NSR Royalty			
Gross proceeds	726	-	726
Less transaction costs	-	-	-
Net proceeds	726	-	726
Total gross proceeds	4,766	356	5,122
Total transaction costs	(277)	-	(277)
Total net proceeds	4,489	356	4,845

A - Convertible Debentures

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 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.

The repayments of principal and interest are summarized as follows:

	Within 1 year \$	2-5 years (1) \$	Total \$
Convertible Debentures (principal & interest)	145	4,127	4,272

(1) Assumes that the Debentures are not converted to Common Shares prior to Maturity.

On or after November 27, 2017, 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.

On May 27, 2017 or the "Put Date", Debenture holders will 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 (the "Notice Date") and a one month period for repayment following the Put Date. As of the Notice Date, no requests were made by Debenture holders for early repayment and consequently, no early repayment will be required.

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Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2017 and 2016

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

The Company also issued a total of 2,002,772 Common Share purchase warrants (“\$0.50 Warrants”) to the purchasers of the Debentures in connection with the financing. Each \$0.50 Warrant is exercisable at a price of CAD\$0.50 for a period of four years from the date of issuance.

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Debentures are considered to contain an embedded derivative relating to the conversion option. The conversion option was valued upon initial recognition at fair value using an option pricing model and was separated from the debt component of the Debentures. The debt component of the Debentures was measured upon initial recognition, based on the present value of the cash flows associated with the Debentures. Subsequent to initial recognition, the embedded derivative component is re-measured at fair value at each reporting date while the debt component is accreted to the face value of the Debentures using the effective interest rate through periodic charges to finance expense over the term of the Debentures. Accretion for the three months ended March 31, 2017 was \$108.

Fair value adjustment gain for the embedded derivative relating to the conversion option for the three months ended March 31, 2017 was \$1,021, which was recorded in finance cost.

Also in accordance with IAS 39, Financial Instruments: Recognition and Measurement, the \$0.50 Warrants were detached from the convertible Debentures host contract and recognized as a separate financial liability. The \$0.50 Warrants were fair valued using the Black-Scholes Model upon initial recognition based on the \$0.50 Warrants terms. The fair value adjustment gain of the \$0.50 Warrants for the three months ended March 31, 2017 was \$61, which was recorded in finance cost.

During the three months ended March 31, 2017, the Company paid interest of \$nil on the Debentures.

During the three months ended March 31, 2017, \$30 (CAD\$40) principal amount of Debentures were converted into 80,000 common shares. As at March 31, 2017, CAD\$5,263 principal amount of Debentures were outstanding.

During the three months ended March 31, 2017, nil \$0.50 Warrants were exercised. As at March 31, 2017, there were 1,851,046 of \$0.50 Warrants outstanding.

The components of the Debentures are summarized as follows:

	January 1, 2017	Accretion	Interest payments	Conversions	Fair value adjustments	Exchange adjustments	March 31, 2017
	\$	\$	\$	\$	\$	\$	\$
Convertible Debentures breakdown							
Convertible Debt	2,958	108	-	(20)	-	19	3,065
Embedded Derivative Liability	10,068	-	-	(10)	(1,021)	67	9,104
\$0.50 Purchase Warrants	1,673	-	-	-	(61)	11	1,623
Total	14,699	108	-	(30)	(1,082)	97	13,792

The above components have been classified as non-current liabilities on the balance sheet.

B - Net Smelter Return Royalty

The NSR applies to the Platosa Project and bears 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. Payments are made in cash semi-annually. The NSR proceeds of \$726 were amortized into income in 2015.

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Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2017 and 2016

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

NSR royalty expensed for the three months ended March 31, 2017 was \$42.

10. PROVISIONS

	Post-retirement benefits (1) \$	Rehabilitation provision (2) \$	Total \$
Year ended December 31, 2016			
Opening balance	512	1,255	1,767
Change in estimate	-	(245)	(245)
Accretion for the year	-	33	33
Exchange differences	(86)	(14)	(100)
Closing Balance	426	1,029	1,455
Period ended March 31, 2017			
Opening balance	426	1,029	1,455
Change in estimate	71	-	71
Accretion for the period	-	12	12
Exchange differences	48	102	150
Closing Balance	545	1,143	1,688

- (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 6.8% (December 31, 2016 – 6.8%) based on the yield curve from short and long term Mexican government bonds, annual salary and minimum wage increase rate of 3.75% (December 31, 2016 – 3.75%) and the life of mine of approximately five years.
- (2) Rehabilitation provision: Key financial assumptions used in the above estimate include an annual discount rate of 4.5% (December 31, 2016 – 4.5%) based on the current risk-free borrowing rate, Mexican inflation rate and the life of mine of five years. The total undiscounted amount of estimated cash flows required to settle the Company's obligations is \$1,405 of which \$893 relates to the Platosa mine, and \$512 relates to the Miguel Auza mine property. The present value of the total discounted obligation is \$1,143 of which \$727 relates to the Platosa mine and \$416 relates to the Miguel Auza mine property.

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Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2017 and 2016

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

11. SHARE CAPITAL

	Number of shares (000's)	\$
Year ended December 31, 2016		
Opening balance	55,025	77,362
Shares issued on exercise of stock options	113	82
Shares issued on exercise of warrants	632	268
Shares issued on conversion of Debentures	615	232
Shares issued from Unit Financing	6,667	1,840
Shares issued from Bought Deal (2)	13,250	9,023
Shares returned to treasury (3)	(323)	-
Balance at December 31, 2016	75,979	88,807
Period ended March 31, 2017		
Opening balance	75,979	88,807
Shares issued on exercise of stock options	17	7
Shares issued on conversion of convertible debenture	80	30
Share issued on exercise of RSUs and DSUs	8	24
Balance at March 31, 2017	76,084	88,868

- (1) On April 4, 2016, the Company completed a non-brokered equity private placement (the "Unit Financing") in the Company for gross proceeds of CAD\$3,000 through the issuance of 6,666,667 units (each a "Unit") at a price of \$0.45 per unit. Each Unit comprised one Common Share and one half warrant of the Company ("\$.65 Warrant"), with each whole \$.65 Warrant entitling the holder to purchase one additional Common Share of the Company at a price of CAD\$.65 per share for a period of 24 months from the closing date.

A finder's fee of CAD\$60 was paid in respect of the Unit Financing.

The net proceeds of CAD\$2,940 were allocated proportionally between the fair values of the common shares and the \$.65 Warrants issued in the Unit Financing.

- (2) On July 26, 2016, the Company completed a bought deal public offering (the "Bought Deal") of 13,250,000 units ("Public Units") at a price of CAD\$1.15 per Public Unit for gross proceeds of CAD\$15,238 (the "Offering"). Each Public Unit comprised one Common Share and one half-warrant ("\$.75 Warrant") with each whole warrant entitling the holder to acquire a Common Share at a price of CAD\$1.75 for a period of 24 months from the closing date.

A broker's fee of CAD\$914 was paid in respect of the Bought Deal.

The net proceeds after transaction costs of CAD\$13,953 were allocated proportionally between the fair values of the Common Shares and the \$.75 Warrants issued in the Bought Deal.

- (3) During Q2 2016, the Company returned 322,887 Common Shares to treasury relating to the purchase of Destorbelle Mines Limited ("Destorbelle") in 2004. Under the terms of that

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Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2017 and 2016

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transaction, each shareholder of Destorbelle was entitled to receive 3.25 Common Shares (pre-consolidation; 0.65 Common Shares post-consolidation) and \$0.60 cash for each Destorbelle share. The Common Shares returned to treasury represent the entitlement of unexchanged Destorbelle shares as of 2016. The Company may issue Common Shares to any holders of unexchanged Destorbelle shares from time-to-time upon deposit of Destorbelle shares for exchange. As at March 31, 2017, 322,887 Common Shares remain potentially issuable upon exchange of Destorbelle shares.

STOCK OPTION PLAN (EQUITY-SETTLED)

The Company has a stock option plan that entitles directors, officers, employees and consultants to purchase Common Shares. Under the program, the Company may grant options to purchase Common Shares ("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 Common Shares on the date of grant and each Option may have a maximum term is five years. Options may be granted by the board of directors at any time with varying vesting conditions.

Disclosure of share option program

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

	Weighted Average Exercise Price (CAD)	Options Outstanding
Outstanding at January 1, 2016	\$ 1.80	2,544,000
Granted	\$ 1.62	140,000
Exercised	\$ 0.58	(113,335)
Expired	\$ 4.40	(40,000)
Forfeited	\$ 1.68	(100,000)
Cancelled (1)	\$ 3.08	(929,000)
Outstanding at December 31, 2016	\$ 1.03	1,501,665
Exercisable at December 31, 2016	\$ 1.08	1,171,679
<hr/>		
Outstanding at January 1, 2017	\$ 1.03	1,501,665
Granted	\$ 1.75	320,000
Exercised	\$ 0.59	(16,667)
Outstanding at March 31, 2017	\$ 1.10	1,804,998
Exercisable at March 31, 2017	\$ 1.14	1,270,011

(1) The Company cancelled 929,000 Options, all of which were fully vested and had no financial impact upon cancellation.

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Options outstanding and exercisable were as follows:

CAD	Stock Options Outstanding	Weighted Average Remaining Contractual Life (years)	Stock Options Exercisable	Weighted Average Exercise Price (CAD)
\$0.00 to \$0.49	128,333	3.76	78,340	\$ 0.31
\$0.50 to \$0.99	451,665	3.02	273,340	\$ 0.57
\$1.14 to \$1.49	635,000	1.75	635,000	\$ 1.17
\$1.50 to \$1.99	490,000	4.67	183,331	\$ 1.75
\$2.00 to \$2.50	100,000	0.57	100,000	\$ 2.10
	1,804,998	2.94	1,270,011	\$ 1.14

Inputs for measurement of grant date fair values

The grant date fair value of the Options were 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 Options were the following:

	Three months ended	
	March 31, 2017	March 31, 2016
Fair value at grant date	\$1.12	\$ -
Share price at grant date	\$1.75	\$ -
Exercise price	\$1.75	\$ -
Risk free interest rate	1.02%	0.00%
Expected life of options in years	5.00	0.00
Expected volatility	80.45%	0.00%
Expected dividend yield	0.00%	0.00%
Estimated forfeiture rate	2.29%	0.00%

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:

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	Three months ended	
	March 31, 2017	March 31, 2016
	\$ (CAD)	\$ (CAD)
Share options granted in 2014	-	3
Share options granted in 2015	10	22
Share options granted in 2016	17	-
Share options granted in 2017	134	-
	161	25

DEFERRED SHARE UNITS ("DSU")

The Company has implemented a DSU plan, primarily in respect of director compensation, whereby DSUs granted may 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 Common Shares on settlement dates elected by the holder between the retirement date and December 15th of the calendar year subsequent to the year of the holder's retirement. All grants under the plan are fully vested upon credit to an eligible holder's 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 Common 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 as the payment in cash or Common Shares is at the option of the Company.

Disclosure of DSU program

DSUs outstanding are as follows:

	DSUs Outstanding
Outstanding at January 1, 2016	1,621,409
Granted	349,227
Outstanding at December 31, 2016	1,970,636
Granted	308,711
Settled	(70,000)
Outstanding at March 31, 2017	2,209,347

During the three month ended March 31, 2017, the Company granted 308,711 DSUs (three months ended March 31, 2016 – 138,935 DSUs) with a market value of CAD\$536 (three months ended March 31, 2016 - CAD\$85) at the date of grant to non-executive directors and employees as compensation in lieu of cash director fees and other compensation.

During the three months ended March 31, 2017, there were 70,000 DSUs settled for Common Shares (three months ended March 31, 2016 – nil).

Total share based compensation expensed in the three months ended March 31, 2017 related to vested DSUs was CAD\$536 (three months ended March 31, 2016 – CAD\$85). As at March 31, 2017, 2,209,347 DSUs were outstanding.

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RESTRICTED SHARE UNITS ("RSU")

The Company has implemented a RSU Plan whereby officers, employees and consultants may be entitled 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 grant of applicable RSUs. 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 Common 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 as the payment in cash or Common Shares is at the option of the Company.

Disclosure of RSU program

RSUs outstanding are as follows:

	RSUs Outstanding
Outstanding at January 1, 2016	1,049,911
Granted	410,000
Settled	(214,911)
Outstanding at December 31, 2016	1,245,000
Granted	695,000
Settled	(15,000)
Forfeited	(69,646)
Outstanding at March 31, 2017	1,855,354

During the three months ended March 31, 2017, the Company granted 565,750 RSUs subject to performance vesting conditions (three months ended March 31, 2016 – 60,000) with market value of CAD\$983 at the date of grant to officers, employees and consultants.

During the three months ended March 31, 2017, the Company granted 129,250 RSUs subject to time vesting conditions (three months ended March 31, 2016 – nil) with a market value of CAD\$222 at the date of grant to officers, employees and consultants.

During the three months ended March 31, 2017, the Company settled 10,500 RSUs with common shares and settled 4,500 RSUs with cash for CAD\$8 (three months ended March 31, 2016 – nil).

Total share based compensation expensed in the three months ended March 31, 2017 related to RSUs was CAD\$64 (three months ended March 31, 2016 – CAD\$35). As at March 31, 2017, 1,855,354 RSUs were outstanding.

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WARRANTS

Disclosure of Common Share Purchases Warrants outstanding

Common share purchase warrants (aggregating \$0.50 Warrants, \$0.65 Warrants and \$1.75 Warrants) outstanding are as follows:

	Weighted Average Exercise Price (CAD)	Warrants Outstanding
Outstanding at January 1, 2016	\$ 0.50	2,482,772
Granted (1)	\$ 1.38	9,958,333
Exercised (2)	\$ 0.50	(631,726)
Outstanding at December 31, 2016	\$ 1.24	11,809,379
Outstanding at January 1, 2017	\$ 1.24	11,809,379
Outstanding at March 31, 2017	\$ 1.24	11,809,379

- (1) During the year ended December 31, 2016, the Company completed the following transactions:
- A. the Unit Financing and issued 3,333,333 \$0.65 Warrants.
 - B. the Bought Deal and issued 6,625,000 \$1.75 Warrants.

- (2) During the year ended December 31, 2016, 631,726 \$0.50 Warrants were exercised for CAD\$316.

During the three months ended March 31, 2017, the Company recognized a fair value adjustment gain of \$61 on the Warrants related to the Debentures, which was recorded in finance cost (three months ended March 31, 2016 - \$321 loss).

As at March 31, 2017, the following common share purchase warrants were outstanding:

Exercise Price (CAD)	Warrants Outstanding	Weighted Average Remaining Contractual Life (years)	Expiry Date
\$ 0.50	1,851,046	2.66	November 27, 2019
\$ 0.65	3,333,333	1.01	April 4, 2018
\$ 1.75	6,625,000	1.32	July 26, 2018
	11,809,379	1.44	

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12. COMMITMENTS

The following table summarizes the Company's significant commitments as of March 31, 2017:

	2017	2018	2019	2020	2021	Total
	\$	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	5,884	-	-	-	-	5,884
Capital Expenditure	783	-	-	-	-	783
Mine restoration provision	-	-	-	-	1,405	1,405
Employee future benefits	-	-	-	-	1,414	1,414
Concession holding fees	257	524	530	538	538	2,386
Office leases	110	189	47	-	-	347
	7,035	713	577	538	3,358	12,220

Not included above is an NSR royalty payable semi-annually on the Platosa Property of (a) 1.25% in respect of manto mineralization other than skarn mineralization or (b) 0.5% in respect of skarn or "Source" mineralization. Such payments vary period to period based on production results and commodity prices.

13. 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 by mark-to market adjustments at each reporting period until settlement occurs, with the changes in fair value recorded to revenues. An amount of \$877 is included in the trade receivables as at March 31, 2017 (as at March 31, 2016 – \$881).

During the three month ended March 31, 2017, the Company recognized negative adjustment to revenues of \$17 primarily related to the reversal of the mark to market taken at the end of 2016 as receivables were ultimately settled at lower values in 2017 (three months ended March 31, 2016 – positive adjustment of \$244).

As at March 31, 2017, provisionally priced sales totalled \$3,591, which are expected to settle at final prices during the second quarter of 2017. A 10% increase or decrease in the prices of silver, lead and zinc will result in a corresponding increase or decrease in revenues of \$359 during the second quarter of 2017.

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14. EXPENSE BY NATURE

(a) Cost of sales comprises the following:

	Three months ended	
	March 31, 2017	March 31, 2016
	\$	\$
Direct mining and milling costs (1)	3,621	3,271
Changes in inventories	404	(2)
Depletion, depreciation and amortization	546	605
Cost of sales	4,571	3,874

(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	
	March 31, 2017	March 31, 2016
	\$	\$
Office and overhead costs	432	277
Salaries and wages	293	228
Share based compensation	569	108
Depletion and amortization	41	41
General and administrative expenses	1,335	654

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

	Three months ended	
	March 31, 2017	March 31, 2016
	\$	\$
Unrealized gain on marketable securities	(1,520)	-
Foreign exchange loss (gain)	(193)	367
Other expense (income)	(1,713)	367

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15. FINANCE COST

Finance expense comprises the following:

	Three months ended	
	March 31, 2017	March 31, 2016
	\$	\$
Interest Expense	61	-
Rehabilitation provision - accretion	12	9
Convertible debentures - accretion	71	81
Loss (gain) on change in fair value of purchase warrants	(61)	321
Loss (gain) on change in fair value of embedded derivative liability	(1,021)	1,569
Unrealized gain on currency hedges	(325)	-
Finance Cost (Income)	(1,263)	1,980

16. 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.

17. RELATED PARTIES

The corporate secretary of the Company is a partner in a firm that provides legal services to the Company. During the three months ended March 31, 2017, the Company incurred legal services of \$10 (three months ended March 31, 2016 - \$20). As at March 31, 2017, the Company had an outstanding payable balance of \$7 (March 31, 2016 - \$150).

18. FINANCIAL INSTRUMENTS

Fair Values of non-derivative financial instruments

All financial assets and financial liabilities, other than derivatives, are initially recognized at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortized cost. The carrying values of cash and cash equivalents, trade receivables and other liabilities approximate their fair value. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

Embedded derivatives

Revenues from the sale of metals produced since the commencement of commercial production are based on provisional prices at the time of shipment. Variations between the price recorded at the time of sale and the actual final price received from the customer are caused by changes in market prices for metals sold and result in an embedded derivative in accounts receivable. The embedded derivative is recorded at fair value each reporting period until settlement occurs, with the changes in fair value recorded to revenues.

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Notes to the Condensed Interim Consolidated Financial Statements For the three months ended March 31, 2017 and 2016

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For the three months ended March 31, 2017, the Company recorded \$3,591 (three months ended March 31, 2016 – \$3,120) in revenues from provisionally priced sales on the statement of loss and comprehensive income, which are subject to adjustment pending final settlement in the second quarter of 2017. As at March 31, 2017, the Company has recorded embedded derivatives in the amount of \$877 in trade receivables (as at March 31, 2016 – \$881).

Fair Value of derivative financial instruments

The following is a summary of the amortized cost and fair value of the Company's Debentures and outstanding common share purchase warrants as at March 31, 2017:

	Amortized Cost	Fair Value
	\$	\$
Financial liabilities		
Convertible Debt	3,065	3,907
	3,065	3,907

Fair Value Hierarchy

The Company values financial instruments carried at fair value using quoted market prices, where available. The three levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data

The financial liabilities are presented by class in the following table at their carrying values, which generally approximate to the fair values due to their short period to maturity:

		March 31,	Dec 31,
	Fair value	2017	2016
	hierarchy	\$	\$
Financial assets			
Fair value through profit and loss			
Marketable securities	Level 1	3,045	1,521
Financial liabilities			
Fair value through profit and loss			
Embedded Derivative Liability	Level 3	9,104	10,068
Purchase Warrants	Level 3	1,623	1,673
		10,727	11,741

There were no transfers between levels 1, 2 or 3 during the three months ended March 31, 2017.

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Risk management policies and hedging activities

The Company is sensitive to changes in commodity prices, foreign exchange and interest rates. The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company addresses its price-related exposures through the use of options, futures, forwards and derivative contracts.

Economic dependence

The Company has offtake agreements with two customers, Trafigura and MK Metal Trading Mexico, S.A. de C.V. ("MK Metals"). The Company believes that because of the availability of alternative processing and commercialization options for its concentrate, it would suffer no material adverse effect if it lost the services of Trafigura or MK Metals.

Credit risk

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Management believes the credit risk on cash and cash equivalents is very low since the Company's cash and cash equivalents balance are held at large international financial institutions with strong credit ratings.

The Company is exposed to credit risk from its customers, Trafigura and MK Metals. Accounts receivable are subject to normal industry credit risks and are considered low.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due. To the extent the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions. Accounts payable excluding accrued liabilities are due within 90 days or less.

Currency risk

The Mexican peso (MXN) and the Canadian dollar are the functional currencies of the Company and as a result currency exposures arise from transactions and balance in currencies other than the functional currencies. The Company's potential currency exposures comprise:

- translational exposure in respect of non-functional currency monetary items
- transactional exposure in respect of non-functional currency expenditure and revenues;
- commodity price risk; and
- interest rate risk.

Translational exposure in respect of non-functional currency monetary items

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation are periodically revalued to the functional currency equivalents as at that date, and the associated unrealized gain or loss is taken to the income statement to reflect this risk.

The principal non-functional currency to which the Company is exposed is the United States dollar (USD). Based on the Company's net financial assets and liabilities in USD as at March 31, 2017, a weakening of the USD against the MXN and CAD functional currencies by 1% with all other variables held constant, would increase/(decrease) net loss and equity by approximately \$16.

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Transactional exposure in respect of non-functional currency expenditure and revenues

Certain operating and capital expenditures are incurred by some operations in currencies other than their functional currency. To a lesser extent, certain sales revenue is earned in currencies other than the functional currency of operations, and certain exchange control restrictions may require that funds be maintained in currencies other than the functional currency of the operation.

At March 31, 2017, the Company has entered into forward exchange contracts to manage short-term foreign currency cash flows relating to operating activities.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices of silver, lead and zinc.

The Company is particularly exposed to the risk of movements in the price of silver. Declining market prices for silver could have a material effect on the Company's profitability, and the Company does not hedge its exposure to silver. The London Silver Spot price average, in USD per ounce, was \$17 in the three months ended March 31, 2017 (three months ended March 31, 2016 – \$15). The Company estimates that a 10% increase/decrease in commodity prices in 2016 with all other variables held constant would have resulted in an increase/decrease in net loss of approximately \$202.

Interest rate risk

Cash and cash equivalents earn interest at floating rates dependent upon market conditions.

19. CAPITAL MANAGEMENT

The Company's objectives of capital management are intended to safeguard the entity's ability to continue as a going concern and to continue the exploration and extraction of ore from its mining properties.

The capital of the Company consists of the items included in shareholders' equity. Risk and capital management are monitored by the board of directors. The Company manages the capital structure and makes adjustments depending on economic conditions. Funds have been primarily secured through issuances of equity capital. The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term deposits, all held with major financial institutions. Significant risks are monitored and actions are taken, when necessary, according to the Company's approved policies.

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20. SEGMENT REPORTING

	MEXICO		CANADA		TOTAL	
	March 31, 2017	Dec 31, 2016	March 31, 2017	Dec 31, 2016	March 31, 2017	Dec 31, 2016
	\$	\$	\$	\$	\$	\$
Property, plant and equipment	21,450	17,267	-	-	21,450	17,267
Capital expenditures	(2,845)	(8,193)	-	-	(2,845)	(8,193)
Mineral rights	1,631	1,679	1,500	1,440	3,131	3,119
Total assets	41,548	36,825	6,603	7,974	48,151	44,799

	Three months ended	
	March 31, 2017	March 31, 2016
	\$	\$
MEXICO		
Revenue	3,413	4,261
Cost of sales	(4,571)	(3,874)
Exploration	(564)	(134)
Other expenses	192	(469)
Finance costs	(34)	(9)
Income tax	(754)	125
Net income (loss)	(2,318)	(100)
CANADA		
Corporate administrative expenses	(1,335)	(654)
Exploration	-	(3)
Other expenses	1,521	102
Finance costs	1,297	(1,971)
Net income (loss)	1,483	(2,526)
Net loss	(835)	(2,626)

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified in order to conform with the presentation adopted in the current period.

22. SUBSEQUENT EVENTS

In April 2017, the Company sold its marketable securities of 837,000 Osisko common shares for net proceeds of \$3,272 (CAD\$4,398).