



## Management Discussion & Analysis

[August 13, 2010]

### For the six and three month periods ended June 30, 2010

*Excellon Resources Inc. [the "Company", "Excellon" or "Corporation"] has prepared this Management's Discussion and Analysis ["MD&A"] for the three month period ended June 30, 2010 in accordance with the requirements of National Instrument 51-102 ["NI 51-102"]. In December 2009 the Company changed its year end to December 31 from July 31. The year end change was desirable to make the Company's financial statements directly comparable to other mining companies on a quarterly basis and to have a consistent year end with its subsidiaries. This change in year end required the Company to have a transition year with a five month year ending December 31, 2009 with comparatives for the twelve month year ending July 31, 2009. This MD&A of the results of operations for the three and six month periods ended June 30, 2010 and containing information as at August 13, 2010 provides information on the operations of the Company for the three month period ending June 30, 2010 and July 31, 2009 and subsequent to the period end, and should be read in conjunction with the audited consolidated financial statements for the periods ended December 31, 2009 and July 31, 2009, filed on SEDAR.*

*Effective January 1, 2010, the Company's foreign subsidiaries were deemed to be operationally and financially self sufficient, and accordingly, classified as self sustaining foreign operations. Prior to 2010 these subsidiaries were considered to be integrated foreign operations since they were financially and operationally dependent upon Excellon. The change was accounted for prospectively.*

*This MD&A may contain "forward-looking statements" that reflect the Company's current expectations regarding the future results of operations, performance and achievements of the Company, including potential property acquisitions, the timing, content, cost and results of work programs, geological interpretations, potential mineral recovery processes and rates, proposed production rates, the construction of a mill, the acquisition of surface rights and negotiation and closing of future financings. The Company has tried, wherever possible, to identify these forward-looking statements by, among other things, using words such as "anticipate," "believe," "estimate," "expect" and similar expressions. The statements reflect the current beliefs of the management of the Company, and are based on currently available information. Accordingly, these statements are not guarantees of future performance and are subject to known and unknown risks, uncertainties and other factors, which could cause the actual results, performance, or achievements of the Company to differ materially from those expressed in, or implied by these statements. See "Risk Factors".*



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

### Description of Business

Excellon is exploring, developing and mining the high-grade silver-zinc-lead mineralization on its approximately 42,065-hectare [103,945-acre] Platosa Property ["Platosa"] in northeastern Durango State, Mexico. The style of mineralization at Platosa resembles that of several of the world-class carbonate replacement deposits ["CRD"] of Mexico. The Company is also carrying out surface exploration at its Miguel Auza property in northern Zacatecas State where it began processing Platosa ore in March 2009.

On June 2, 2009 the Company concluded its previously announced acquisition of Silver Eagle Mines Inc. ["SEG"]. The acquisition of SEG provided Excellon with a fully operational mill with the capacity to process up to approximately 450 tonnes of Platosa ore per day, a large amount of mining equipment, some of which has been put to use at Platosa, and a large underexplored exploration property. The Company has been processing its Platosa ore at Miguel Auza mill since March 19, 2009. The Company produces two concentrates; a silver-lead concentrate and a silver-zinc concentrate. Both concentrates are shipped to the port of Manzanillo where they are purchased by Consorcio Minero de Mexico Cormin Mex, S.A. de C.V., a Trafigura Group Company, under the terms of a two-year contract.

On December 13, 2009 the Company reported that its Indicated Mineral Resource at Platosa had increased to 579,000 tonnes grading 909 g/t (27 oz/T) Ag, 9.09% Pb, and 10.51% Zn (as at October 31 2009), up from 396,000 tonnes grading 986 g/t (29 oz/T) Ag, 9.00% lead, and 10.10% zinc (as at February 3, 2008). The Inferred Mineral Resource increased from 72,700 to 160,000 tonnes at a somewhat lower grade than that of 2008. All the pertinent figures are shown in the table below.

**Platosa Project – Mineral Resource Estimate (as of October 31, 2009)**

Category	Tonnes [t]	Silver [g/t]	Silver [oz/T]	Lead [%]	Zinc [%]
Indicated	579,000	909	27	9.09	10.51
Inferred	160,000	731	21	7.44	7.57

*Notes:*

- 1. CIM definitions were followed for the classification of Mineral Resources.*
- 2. Mineral Resources are estimated at an incremental NSR cut-off value of U.S. \$86 per tonne*
- 3. NSR metal price assumptions: Silver U.S. \$16.00/oz, Lead U.S. \$0.80/lb, Zinc U.S. \$1.00/lb.*
- 4. Estimate is of Mineral Resources only and, because these do not constitute Mineral Reserves, they do not have any demonstrated economic viability.*



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

5. *National Instrument 43-101 compliant Mineral Resource estimate prepared by Scott Wilson Roscoe Postle Associates Inc., independent geological and mining consultants of Toronto, Ontario. Prepared as at October 31, 2009.*

The change in resources can be summarized as follows;

<b>Tonnes</b>	<b>Indicated</b>	<b>Inferred</b>
Opening February 3, 2008	396,000	72,700
Production	(79,000)	
Additions	262,000	87,300
<b>Closing October 31, 2009</b>	<b>579,000</b>	<b>160,000</b>

The new resource estimate is for the Platosa Project only and does not include any estimates from the Miguel Auza property that was acquired in June 2009.

### Corporate Developments

On March 20, 2009 the Company announced that it had entered into a definitive agreement with Silver Eagle Mines Inc. ("SEG") whereby the Company agreed to acquire all the outstanding common shares of SEG (the "Transaction"). Under the terms of the Transaction, SEG shareholders received 0.2704 common shares of the Company in exchange for each SEG share held. As such, the total consideration for the acquisition of SEG by the Company was approximately 15 million Excellon common shares and net cash costs for related expenditures of \$1,216,528. The Transaction was completed by way of a statutory plan of arrangement under the *Business Corporations Act* (Ontario). SEG's primary asset is its fully permitted Miguel Auza mine, mill and adjacent properties located in Zacatecas State, Mexico (approximately 220 kilometres south of the Company's Platosa Property). The completion of the Transaction was subject to, among other things, obtaining SEG shareholder approval (not less than 66 2/3% of the votes cast at a special shareholder meeting) and obtaining all required court and regulatory approvals.

On June 2, 2009 the Transaction was concluded successfully having gained the required SEG shareholder approval (97.3%) and having obtained all required court and regulatory approvals. Efforts continue to integrate the two companies and realize all possible efficiencies.



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

The following table shows a breakdown of the purchase price:

Purchase Price	\$5,488,722
Purchase Price Allocation	
Current Assets, including cash of \$902,194	\$2,148,130
Land	261,407
Property, Plant & Equipment	9,464,947
Asset Retirement Cost	314,317
Mineral Interests	1,686,000
Accounts Payable	(5,413,989)
Asset Retirement Obligation	(314,317)
Net assets acquired	<u>\$8,146,495</u>
Negative goodwill [a]	<u>(2,657,773)</u>
Purchase Price	<u>\$5,488,722</u>

[a] Negative goodwill was allocated, on a pro rata basis, to tangible assets as follows;

Applied to:	FMV	Goodwill Allocated	Adjusted NBV
Mineral interests	1,686,000	(382,121)	1,303,879
Property, plant & equipment	9,464,947	(2,145,168)	7,319,779
Land	261,407	(59,246)	202,161
Asset retirement obligation	314,317	(71,238)	243,079

In addition, the Company acquired unused non-capital tax losses in Mexico totalling \$25,096,079, which can be carried forward and applied against taxable income of future years in Mexico. No portion of the purchase price has been allocated to this potential future tax asset.

The Company's previously announced plan to construct its own mill at its Platosa site was suspended in December 2008 and it is now utilizing the Miguel Auza mill to process all ore produced from its Platosa mine. The Company is producing ore at the rate of 220 tonnes per day (approximately 6,000 tonnes per month). The Miguel Auza mill can process up to approximately 450 tonnes per day of Platosa ore. The Company expects to complete the construction of the Platosa mill at some point in the future. The timing of this is not currently determinable but would be in response to a variety of factors including production changes and or corporate development activities. Nearly all the equipment required to complete the mill is on site at Platosa and the construction and operation of the mill is fully permitted. To date \$4.2 million has been spent on mill equipment, construction and engineering design.

In April 2009 the Company successfully completed a best-efforts private placement financing for gross proceeds of \$7,374,048, pursuant to which the Company issued 38,810,779 common shares.



## Management Discussion & Analysis

[August 13, 2010]

### For the six and three month periods ended June 30, 2010

On May 11, 2009 the Company announced a rights offering to holders of common shares of Excellon (the "Rights Offering"). The Rights Offering entitled shareholders of record at the close of business on May 22, 2009 to one right for each common share held (each a "Right"). Eight (8) Rights permitted the holder to subscribe for one common share of Excellon at a price of \$0.23 per share. The Rights Offering was fully subscribed by June 18, 2009 and Excellon received gross proceeds of \$5,694,065 and 24,756,804 common shares of Excellon were issued. The net proceeds of the Rights Offering have been and were used for general working capital purposes, and the recommencement of Excellon's exploration drilling program.

### Financial Highlights

The following are the financial highlights for the three months ended June 30, 2010 and March 31, 2010. Full details of this information are discussed later in this MD&A.

The Company believes that with the achievement in 2009 including the acquisition of SEG, commencement of concentrate shipments, and successful completion of financings, it stabilized its financial position. However, there are no assurances that the Company will have sufficient cash resources to continue to meet its objectives as this is dependent on adequate metal production levels and prices and potentially the ability to complete future financings. See 'Risk Factors' for further detail.

	Three months ended 30-Jun-10	Three months ended 31-Mar-10
Sales	\$ 8,047,580	\$ 10,383,269
Cost of production [including amortization]	2,570,605	3,404,237
	5,476,975	6,979,032
Expenses:		
Non-cash items	722,606	567,002
Exploration expenditures	3,265,676	2,279,883
G&A and other	2,284,615	2,938,459
Provision for (recovery of) income taxes - current	(765,767)	835,582
(Recovery of) income taxes - future	(494,352)	(190,990)
	5,012,778	6,429,936
Net income for the period	\$ 464,197	\$ 549,096
Cash provided by operating activities	\$ 471,710	\$ 3,372,243
Cash and short-term investments	\$ 4,931,361	\$ 8,169,210
Working capital surplus (deficiency)	\$ 5,695,270	\$ 8,865,493



## Management Discussion & Analysis

[August 13, 2010]

**For the six and three month periods ended June 30, 2010**

### Operations

During the three-month period ended June 30, 2010 the Company processed 18,861 tonnes of Platosa ore at the Miguel Auza mill. Head grades were 730 g/t silver; 6.44% lead; 8.41% zinc and resulted in the production of 1,398 dry metric tonnes (“DMT”) of silver-lead concentrate and 2,391 DMT of silver-zinc concentrate. During the six-month period between January 1 and June 30, 2010 the Company processed 39,918 tonnes of Platosa ore at the Miguel Auza mill. Head grades were 831 g/t silver; 6.88% lead; 8.62% zinc and resulted in the production of 3,255 dry metric tonnes (“DMT”) of silver-lead concentrate and 5,178 DMT of silver-zinc concentrate. All concentrates were shipped to the port of Manzanillo and sold to Consorcio Minero de Mexico Cormin Mex, S.A. de C.V under the terms of a two-year contract entered into in June 2009. See table below for provisional shipping statistics.

Silver, lead and zinc recoveries averaged 87.3%, 70.7% and 77.4% respectively during the January 1 to June 30, 2010 period.

The following are the processed ore statistics for periods indicated from the Miguel Auza mill:

	<u>3 months ended</u> 30-Jun-10	<u>3 months ended</u> 31-Mar-10	<u>2 months ended</u> 31-Dec-09	<u>3 months ended</u> 31-Oct-09	<u>3 months ended</u> 31-Jul-09	<u>3 months ended</u> 30-Apr-09
Tonnes of ore processed	18,861	21,057	11,513	16,521	18,493	11,376
Contained metal						
Silver [ozs.]	401,749	565,361	304,816	421,942	672,934	356,076
Lead [lbs.]	2,686,772	3,376,378	1,859,516	2,599,211	3,791,618	2,110,464
Zinc [lbs.]	3,492,871	4,088,800	2,026,556	2,600,238	3,220,837	2,660,965
Average grade:						
Silver [oz/t] [1]	23.5	29.6	29.2	28.1	40.1	34.5
Silver [g/t]	730.5	920.8	908.0	875.9	1,248.0	1,073.5
Silver [oz/T]	21.3	26.8	26.5	25.5	36.4	31.3
Lead [%]	6.5	7.3	7.3	7.1	9.3	8.4
Zinc [%]	8.4	8.8	8.0	7.1	7.9	10.6
Payable metal:						
Silver - [ozs.]	352,814	406,108	263,281	373,790	493,424	244,958
Lead - [lbs.]	1,729,004	2,010,769	1,293,086	2,004,540	2,575,693	1,192,823
Zinc - [lbs.]	2,430,364	2,272,802	1,289,748	1,781,358	2,041,744	1,244,589
Realized prices						
Silver - [\$ / oz.]	18.46	16.31	17.37	16.79	14.14	14.01
Lead - [\$ / lb.]	0.81	1.01	1.06	1.00	0.79	0.66
Zinc - [\$ / lb.]	0.83	1.03	1.08	0.91	0.74	0.69

During the second quarter of 2010 both production and grades were lower as the higher grade headings were inaccessible due to the installation of water control systems. Results for the month of June were more in line with budget.



## Management Discussion & Analysis

[August 13, 2010]

**For the six and three month periods ended June 30, 2010**

### Cash Cost per Payable Ounce of Silver Sold

The Company's cash cost for each payable ounce of silver sold, net of by-product credits, for the three months ended June 30, 2010 was US\$5.82 [Five months ended December 31, 2009 - US\$4.92]. The calculation of cash cost per payable ounce of silver sold is significantly influenced by by-product metal prices, which may fluctuate going forward.

Cash cost per payable ounce of silver sold, net of by-product credits, is provided as additional information. It is a non-GAAP measure that does not have a standardized meaning and is therefore unlikely to be comparable to similar measures presented by other issuers. This measure should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles, and is not necessarily indicative of operating expenses as determined under generally accepted accounting principles. This measure is intended to provide investors with information about the cash generating capabilities of the Company's operations. The Company uses this information for the same purpose. This analysis excludes capital expenditures and income taxes.

### Non-GAAP Reconciliation of Cash Cost per Payable Ounce of Silver Sold, Net of By-Product Credits;

	Three months ended 30-Jun-10	Three months ended 31-Mar-10	Two months ended 31-Dec-09	Three months ended	
				31-Oct-09	31-Oct-08
<b>Expenses</b>					
Cost of production	\$ 2,570,605	\$ 3,404,237	\$ 3,258,412	\$ 3,503,065	\$ 1,772,086
Operating expenses	6,273,422	5,808,686	3,234,233	4,473,213	5,516,261
	<u>8,844,027</u>	<u>9,212,923</u>	<u>6,492,645</u>	<u>7,976,278</u>	<u>7,288,347</u>
<b>Non-cash operating costs and other:</b>					
Amortization of property, plant and equipment	(603,275)	(241,227)	(145,739)	(180,060)	(169,918)
Exploration expenditures	(3,265,676)	(2,279,883)	(1,161,378)	(1,511,072)	(2,158,218)
Foreign exchange gain (loss)	(6,528)	(13,897)	26,115	(647,801)	(1,460,137)
Stock-based compensation	(68,734)	(241,640)	(337,830)	(197,293)	(273,086)
Amortization of deferred financing costs	-	-	-	(47,930)	(144,360)
Amortization of acquisition and deferred development costs	(29,869)	(257,134)	(286,898)	(286,898)	(171,184)
Loss on disposition of property, plant and equipment	-	-	-	-	-
Other	-	-	-	(6,424)	-
	<u>4,869,945</u>	<u>6,179,142</u>	<u>5,098,800</u>	<u>5,098,800</u>	<u>2,911,444</u>
By-product credits [1]	<u>(2,699,881)</u>	<u>(3,677,029)</u>	<u>(2,766,536)</u>	<u>(3,781,342)</u>	<u>471,619</u>
Cash cost	<u>\$ 2,170,063</u>	<u>\$ 2,502,113</u>	<u>\$ 1,927,994</u>	<u>\$ 1,317,458</u>	<u>\$ 3,383,063</u>
Payable ounces of silver sold	<u>352,814</u>	<u>406,108</u>	<u>263,281</u>	<u>393,940</u>	<u>207,677</u>
Cash cost per payable ounce of silver sold, net of by-product credits in CAD\$/oz.	<u>\$ 6.15</u>	<u>\$ 6.16</u>	<u>\$ 7.32</u>	<u>\$ 3.34</u>	<u>\$ 16.29</u>
Cash cost per payable ounce of silver sold, net of by-product credits in US\$/oz.	<u>\$ 5.82</u>	<u>\$ 5.83</u>	<u>\$ 6.93</u>	<u>\$ 3.11</u>	<u>\$ 14.81</u>

[1] By-product credits include revenues from sale of zinc and lead.



## Management Discussion & Analysis [August 13, 2010]

**For the six and three month periods ended June 30, 2010**

### Realized Metal Prices & Average Canadian \$/U.S. \$ Exchange Rates

The following are the average metal prices realized by the Company and average exchange rates for the noted periods;

	Three Months ended 30-Jun-10		Three Months ended 31-Mar-10		Five Months ended 31-Dec-09		Twelve months ended		
							31-Jul-09	31-Jul-08	
Silver (U.S. \$/oz)	18.46	\$	16.31	\$	17.16	\$	14.13	\$	16.71
Lead (U.S. \$/lb)	0.81	\$	1.01	\$	1.03	\$	0.74	\$	1.25
Zinc (U.S. \$/lb)	0.83	\$	1.03	\$	0.99	\$	0.78	\$	1.01
CDN \$/U.S \$	1.03		1.04		1.08		1.18		1.01

### Exploration

#### Platosa Property

The Platosa mine exploits a series of typical, although very high-grade, distal CRD silver, lead, zinc manto deposits located strategically within the prolific Mexican CRD Belt. It is the Company's belief and diamond drilling results to early August 2010 continued to confirm, that the Platosa Property holds considerable potential for the discovery of additional high-grade manto mineralization and for the discovery of large-tonnage, though lower grade, proximal CRD mineralization. CRDs are epigenetic, intrusion-related, high-temperature sulphide-dominant, lead-zinc-silver-(copper-gold)-rich deposits that commonly occur in clusters associated with major regional geologic features. The Mexican CRD Belt is perhaps the world's best developed CRD cluster and Platosa lies in the centre of the northwest-southeast trending axis of the largest deposits of the belt.

Several features make CRDs highly desirable mining targets. These include,

- **Size** – Proximal CRDs average 10 to 15 million tonnes of ore and the largest range up to 50 million tonnes;
- **Grade** – Ores are typically polymetallic with metal contents ranging from 2-12% lead; 2-18% zinc, 60-600 g/t silver, up to 2% copper and 6 g/t gold; and
- **Deposit morphology** – Individual CRD orebodies within the overall deposit are continuous and average 0.5 to 2 million tonnes in size, with some up to 20 million tonnes. They are typically metallurgically straight-forward, amenable to low-cost underground mining methods and given that they are limestone-hosted, the environmental impact of tailings disposal is generally minimal.

CRD orebodies take the form of lenses or elongate to elongated-tabular bodies referred to as mantos or chimneys depending on whether they are horizontal or steeply inclined. A spectrum



## Management Discussion & Analysis

[August 13, 2010]

### For the six and three month periods ended June 30, 2010

of CRD orebodies exists, ranging from distal manto and medial chimney massive sulphide bodies to proximal sulphide-rich skarns associated with unmineralized or porphyry-type intrusive bodies. Transitions of orebody morphology and mineralogy, and alteration zoning can be used in exploration to trace mantos into chimneys, sulphides into skarn, or skarn into stock contact deposits.

Exploration efforts remain focussed in two geographic areas, the Platosa Mine area and the Saltillera-la Zorra area five kilometres west of the mine.

In the mine area there are three primary objectives:

- To further add to the known distal-style, high-grade CRD Mineral Resources and to discover new mantos by drilling the geological, structural, geochemical, biogeochemical and geophysical targets developed by ongoing and previous surveys;
- To pursue the potential for discovery of larger-volume medial and proximal CRD mineralization. Geological evidence of this potential has been found in several drill holes completed since 2008; and
- Continue to pursue the development of additional targeting tools. At present this work is focussed on Induced Polarization (IP) geophysical surveying and sophisticated airborne geophysical surveying.

Diamond drilling continued to encounter success near existing mine infrastructure and during the period since the previous Management Discussion & Analysis the Company was successful in adding massive sulphide mineralization in the 6A-6B Mantos area. This mineralization has now been found to extend over 125 metres (m) past the furthest northwest resource block in the October 31, 2009 Mineral Resource estimate and remains open to the northwest. Massive sulphide intersections have ranged from 0.36 to 8.42 m in width (estimated true thicknesses). In early August the Company disclosed results for nine holes of which hole EX10-LP814 reported 794 g/t (23 oz/T) Ag, 13.42% Pb, 14.93% Zn over 6.67 m within a wider interval grading 711 g/t (21 oz/T) Ag, 10.93% Pb, 11.70% Zn over 8.42 m. In mid-June results for three holes were disclosed. Of these hole LP775 returned 888 g/t (25.9 oz/T) Ag, 8.17% Pb, 1.85% Zn over 1.51 m and LP781 returned 1,141 g/t (33.3 oz/T) Ag, 6.57% Pb, 14.97% Zn over 3.04 m.

Readers are referred to press releases dated June 16 and August 3, 2010 for full assay results for holes in the 6A-6B Mantos area.

Elsewhere at Platosa, interesting mineralization was intersected in Hole LP763, drilled in the Rincon del Caido area 1.2 km northwest of the northwest corner of the Guadalupe Manto. Anomalous gold, silver, copper, bismuth and antimony were intersected over 3.3 m in a much wider marble unit. Portions of the unit were skarnified and a felsic intrusive was intersected deep in the hole. This combination suggests proximity to a large skarn/intrusive system and is another indication that we may be near a large-tonnage proximal source of the high-grade manto sulphides. Additional drilling is planned for this area.



## Management Discussion & Analysis

[August 13, 2010]

### For the six and three month periods ended June 30, 2010

In addition to the continued drilling of known mineralized areas near the Platosa Mine, the Company has continued testing prospective areas several hundred metres north, east and northeast of the mine. Drilling continues to encounter the favourable fragmental limestone unit, which hosts all the massive sulphides discovered to date, in some cases closer to surface than anticipated. This important discovery has the potential to extend the area available to explore for and discover a deposit close to the same elevation as other mantos nearer the existing mine workings.

In the Saltillera-la Zorra area, the district-scale search for intrusion-related, large-tonnage, proximal-style CRD sulphide mineralization continues. Targeting is based in large part on the results of ground geophysical surveys (IP, magnetic and gravity) and surface mapping and sampling results. In all cases the anomalies have been explained and occasional small amounts of Ag, Pb and Zn have been intersected in favourable rocks. Follow-up work continues. The Company has also begun drilling in the Refugio area located between Saltillera-la Zorra and the mine. Previous surface sampling at Refugio revealed a siliceous auriferous zone, an average of 1.59 g/t Au in 30 samples, found intermittently over a strike-length of 525 m.

In mid-April the Company was successful in acquiring a large (18,000 ha or 44,479 acres) mineral concession adjoining the Platosa Property to the south. This new property is strategically located between the high-grade Platosa Ag, Pb, Zn mantos and the historic Ojuela Mine, which saw over 6 million tonnes of high-grade Ag, Au, Pb, Zn production from a series of CRD chimneys and mantos between the mid 1600s and 1932. The concession covers a large regional magnetic anomaly that is believed to reflect underlying intrusives favourable to the development of CRD systems. Company geologists believe it holds potential to host both high-grade manto/chimney style distal deposits and proximal large-tonnage deposits. An airborne geophysical survey and reconnaissance work will be undertaken later in 2010.

The exploration group continues to investigate targeting methods available to guide its drilling programs and to this end a test 3-D IP survey was completed in early June. The survey covered the known mantos and adjacent areas to the northwest, southeast and northeast. Fully interpreted results are expected during August. A gravity survey was undertaken over the IP grid and results are also expected during August. If shown to be useful these methods may also be applicable to the search for proximal CRD mineralization. The Company also intends to fly a sophisticated airborne geophysical survey over a portion of the Platosa property including almost all of the 18,000 ha concession acquired in April 2010. Company geologists believe this method has the potential to target proximal deposits and may be effective with respect to manto deposits also. It is anticipated that this survey will begin in August 2010.

The Company has five drill rigs operating. Four are in the general mine area and the fifth is at Refugio.



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

### Miguel Auza Property

The Miguel Auza property encompasses 41,498 ha (102,540 acres) and lies on the eastern flank of the Fresnillo Mexican Silver Trend some 150-200 km north of Fresnillo and Zacatecas City, both of which areas have and continue to be the source of a large percentage of Mexican silver, lead and zinc production. The property covers numerous high- and low-sulphide epithermal veins carrying Ag, (Au), Pb, and Zn. The property has been the site of a large amount of historic mining since the time of the Spaniards and as recently as 2008 when SEG (through its Mexican subsidiary) carried out mining and milling on the Calvario Vein system.

In September 2009 the Company began a surface exploration program to determine whether the Calvario Vein system or portions of it can be economically exploited and this portion of the program is ongoing.

The large property has seen very little modern exploration other than on Calvario and its immediate surroundings, and the main thrust of the Miguel Auza exploration program has become an evaluation of the regional potential. This work began in earnest in late 2009 and in March 2010 the company announced that it had outlined six northwest-trending quartz veins varying in thickness from two to 10 m, with a strike length of up to 1,500 m. The "Madera Veins" are composed of multiple stages of quartz and calcite banding and the quartz shows the multi-stage brecciation and replacement textures typical of epithermal veins. Traces of silver sulfides can be found locally. The lack of significant silver grades in the outcrops explains why these veins have seen only local shallow prospecting and why their importance was previously overlooked. A 12-hole drilling program was completed on the Madera Vein system in June 2010. This drilling confirmed the presence of a large epithermal system with veins which persist to a depth of at least 440 m vertical. Significant amounts of pyrite and pyrrhotite were found in portions of the veins. The best intersection was 1.75 m (estimated true thickness) running 321 g/t (9.4 oz/T) Ag, 0.72% Pb, 0.20% Zn and reported in a press release dated May 25, 2010.

Exploration is now focusing on regional mapping and reconnaissance, particularly in an area between the Madera and Calvario veins where historic drilling encountered several narrow intersections of over 1,000 g/t (29.1 oz/T) silver and no significant follow-up was carried out. Additional drilling may result from this surface work.

### **Qualified Persons**

Mr. John Sullivan, BSc., PGeo. has acted as the Qualified Person, as defined in NI 43-101, with respect to the disclosure of the scientific and technical information contained in this MD&A and has supervised the preparation of the technical information on which such disclosure is based.

Mr. Sullivan is an economic geologist with over 35 years of experience in the mineral industry. Prior to joining Excellon in 2007 he was a senior geologist at a Toronto-based international geological and mining engineering consulting firm where he evaluated properties and prepared NI 43-101 reports on gold and base metal projects in Canada and internationally. In addition he



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

has held senior positions with two large Canadian mining companies where he directed major exploration programs, managed field offices, and evaluated projects in Canada, Europe, Africa and Latin America. Mr. Sullivan is not independent of Excellon as he is an officer and holds common share purchase options.

### Corporate Social Responsibility

The Company is dedicated to engaging with the communities in which it operates in a responsible manner. In Mexico, many of the Company's corporate activities have focused on improving the lives of children located in the communities close to Platosa. The Company has granted scholarships, modernized a nursery school, expanded the yard of a primary school, and donated sports equipment to a high school. It participates in community festivals, financially supports local events, and provides uniforms for sports teams.

### Risk Factors

There are many risk factors facing companies in the mining industry which could materially affect the Company. Certain of such risks are:

#### *Mining Industry is Intensely Competitive*

The Company's business is the acquisition, exploration, development, and exploitation of mineral properties. The mining industry is intensely competitive and the Company competes with other companies that have far greater resources.

#### *Metal Concentrate Sales*

The Company currently sells its silver, lead, and zinc concentrates to third party purchasers. The loss of any one customer could have a material adverse effect on the Company in the event of the possible unavailability of alternative purchasers. No assurance can be given that alternative purchasers would be available on a timely basis if the need for them were to arise, or that delays or disruptions in sales would not be experienced that would result in a materially adverse effect on the Company's operations and the Company's financial results. Furthermore, the marketing of metals is dependent on market fluctuations and the availability of processing facilities and storage and transportation infrastructure at economic tariff rates over which the Company may have limited or no control.

#### *Resource Exploration and Development is a Speculative Business*

Resource exploration and development is a speculative business and involves a high degree of risk, including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but from finding mineral deposits which, though present, are insufficient in size to return a profit from production. The marketability of natural resources that may be acquired or discovered by the Company will be affected by numerous factors beyond the control of the Company. These factors include market fluctuations, the proximity and capacity of natural resource markets, and government regulations, including regulations relating to prices, taxes, royalties, land use, importing and exporting of minerals and environmental protection. The



## Management Discussion & Analysis

[August 13, 2010]

**For the six and three month periods ended June 30, 2010**

exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on its invested capital. The majority of exploration projects do not result in the discovery of commercially mineable deposits of ore.

### *Fluctuation of Metal Prices*

Even if commercial quantities of mineral deposits are discovered, there is no guarantee that a profitable market will exist for the sale of the metals produced. Factors beyond the control of the Company may affect the marketability of any substances discovered. The prices of various metals have experienced significant movement over short periods of time, and are affected by numerous factors beyond the control of the Company, including international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities and increased production due to improved mining and production methods. The supply of and demand for metals are affected by various factors, including political events, economic conditions and production costs in major producing regions. There can be no assurance that the price of any minerals contained in a deposit will be such that the Company's properties can be mined on a profitable basis.

### *Permits and Licenses*

The operations of the Company require licenses and permits from various governmental authorities. The Company currently has all permits and licences that it believes are necessary to carry out its current exploration, development and mining operations at its projects including, without limitation, the permits required to construct and operate a mill at Platosa. The Company may require additional licences or permits in the future and there can be no assurance that the Company will be able to obtain all such additional licenses and permits. In addition, there can be no assurance that any existing licences and permits will be renewable if and when required or that such existing licences and permits will not be revoked.

### *Failure to Achieve Production Estimate*

Estimates of future production from the Platosa mine operations as a whole are derived from the original mine plan prepared in fiscal year 2004, as subsequently reviewed/revised by management with input from Scott Wilson RPA. These estimates are subject to change. The Company cannot give any assurance that it will achieve its production estimates. The failure to achieve the anticipated production estimates could have a material and adverse effect on any or all of the Company's future cash flows, results of operation and financial condition. The mine plan has been developed based on, among other things, mining experience, Mineral Resource estimates, assumptions regarding ground conditions and physical characteristics of the Platosa mineralization such as hardness, specific gravity and presence or absence of certain metallurgical characteristics and estimated rates and costs of production.

Actual production may vary from estimates for a variety of reasons, including risks and hazards of the types discussed above, and as set out below:

- ◆ actual ore mined varying from estimates in grade, tonnage and metallurgical recoveries and other characteristics;



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

- ◆ mining dilution;
- ◆ excessive water encountered during mine development and production;
- ◆ ramp wall failures or cave-ins;
- ◆ ventilation and adverse temperature levels underground;
- ◆ industrial accidents;
- ◆ equipment failures;
- ◆ natural phenomena such as inclement weather conditions, floods, blizzards, droughts, rock slides and earthquakes;
- ◆ encountering unusual or unexpected geological conditions;
- ◆ changes in power costs and potential power shortages;
- ◆ shortages of principal supplies needed for operation, including explosives, fuels, chemical reagents, water, equipment parts and lubricants;
- ◆ restrictions imposed by government agencies; and
- ◆ inability to find and retain qualified personnel.

Such occurrences could result in damage to mineral properties, interruptions in production, injury or death to persons, damage to the Company's property or the property of others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable.

### *No Assurance of Profitability*

The Company has a limited history of earnings and due to the nature of its business there can be no assurance that the Company will be profitable. The Company has not paid dividends on its Common Shares since incorporation and does not anticipate doing so in the foreseeable future. The only present source of funds available to the Company is from the anticipated cash flow generated by the Company's mining program or through the sale of its equity shares, short-term high-cost borrowing or the sale or optioning of a portion of its interest in its mineral properties. Even if the results of exploration are encouraging, the Company may not have sufficient funds to conduct the further exploration that may be necessary to determine whether or not a commercially mineable deposit exists. While the Company may generate additional working capital through cash flow from mining operations, further equity offerings, short-term borrowing or through the sale or possible syndication of its properties, there is no assurance that any such funds will be available on favourable terms, or at all. At present, it is impossible to determine what amounts of additional funds, if any, may be required. Failure to raise such additional capital could put the continued viability of the Company at risk.



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

### *Uncertainty of Resource/Reserve Estimates*

The Mineral Resource estimate in respect of the Platosa property, while prepared in compliance with National Instrument 43-101, is based on limited information acquired through drilling and, in some cases, through underground exploration and mining. No assurance can be given that the anticipated tonnages and grades will be achieved or that the indicated level of recovery will be realized. The grade of mineralization actually recovered may differ materially and adversely from the estimated average grades in the resource estimate. Future production could differ dramatically from resource estimates for, among others, the following reasons:

1. mineralization or formations could be different from those predicted by drilling, sampling and similar examinations;
2. increases in operating mining costs and processing costs could adversely affect Mineral Resources;
3. the grade of the Mineral Resources may vary significantly from time to time and there is no assurance that any particular level of silver, lead or zinc may be recovered from the mineral resources; and
4. declines in the market price of silver, lead or zinc may render the mining of some or all of the Mineral Resources uneconomic.

Any of these factors may require the Company to reduce its resource estimate or increase its costs. Short-term factors, such as the need for the additional development of a deposit or the processing of new different grades, may impair the Company's profitability. Should the market price of metals fall, the Company could be required to materially write down its investment in mining properties or delay or discontinue production or the development of new projects.

### *Mineral Reserves*

The Company has not defined any Mineral Reserves on its claims and there can be no assurance that any of the mineral claims under exploration contain commercial quantities of any minerals. However, the Company has externally confirmed the existence of Indicated and Inferred Mineral Resources on the Platosa Property that are currently being exploited for commercial gain. Even if commercial quantities of minerals are identified, there can be no assurance that the Company will be able to exploit the reserves or, if the Company is able to exploit them, that it will do so on a profitable basis. Substantial expenditures may be required to locate and establish Mineral Reserves, to develop metallurgical processes and to construct mining and processing facilities at a particular site, and substantial additional financing may be required. It is impossible to ensure that the exploration or development programs planned by the Company will result in a profitable commercial mining operation. The decision as to whether a particular property contains a commercial mineral deposit and should be brought into production will depend on the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and geologists. Several significant factors will be considered, including, but not limited to: (i) the particular attributes of the deposit, such as size, grade and proximity to infrastructure; (ii) metal prices, which are highly cyclical; (iii) government regulations, including regulations



## Management Discussion & Analysis

[August 13, 2010]

**For the six and three month periods ended June 30, 2010**

relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection; (iv) ongoing costs of production; and (v) availability and cost of additional funding. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital.

### *Uninsured or Uninsurable Risks*

In the course of exploration, development and production of mineral properties, several risks and, in particular, unexpected or unusual geological or operating conditions, may occur. It is not always possible to fully insure against such risks, and the Company may decide not to take out insurance against such risks as a result of high premiums or other reasons. Should such liabilities arise they could reduce or eliminate any future profitability and result in an increase in costs and a decline in value of the Common Shares.

The Company is not insured against environmental risks. Insurance against environmental risks (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) has not been generally available to companies within the industry. Without such insurance, and if the Company becomes subject to environmental liabilities, the payment of such liabilities would reduce or eliminate its available funds or could exceed the funds the Company has to pay such liabilities and result in bankruptcy. Should the Company be unable to fully fund the remedial cost of an environmental problem that arises, it might be required to enter into interim compliance measures pending completion of the required remedy.

### *Government Regulation*

Any exploration, development or mining operations carried on by the Company is subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. As indicated above, the Company requires licenses and permits from a variety of governmental authorities. The Company cannot predict the extent to which future legislation and regulation could cause additional expense, capital expenditures, restrictions, and delays in the development of its properties, including those with respect to unpatented mining claims.

### *Environmental Matters*

Existing and possible future environmental legislation, regulations and actions could result in significant expenses, capital expenditures, restrictions and delays in the activities of the Company, the extent of which cannot be predicted and which may well be beyond the capacity of the Company to fund. The Company's right to exploit the mining properties is subject to various reporting requirements and to obtaining certain government approvals and there is no assurance that such approvals, including environmental approvals, will be obtained without inordinate delay or at all.

Failure to comply with applicable environmental laws, regulations and permitting requirements may result in enforcement actions thereunder, including orders issued by regulatory or judicial



## Management Discussion & Analysis

[August 13, 2010]

**For the six and three month periods ended June 30, 2010**

authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in the exploration or development of exploration properties may be required to compensate those suffering loss or damage by reason of such parties' activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

### *Foreign Countries and Regulatory Requirement*

Platosa is located in Mexico where mineral exploration and mining activities may be affected in varying degrees by political instability, expropriation or nationalization of property and changes in government regulations such as tax laws, business laws, environmental laws and mining laws, all of which could affect the Company's business or operations in that country. Any changes in regulations or shifts in political conditions are beyond the control of the Company and may adversely affect its business, or if significant enough, may make it impossible to continue to operate in the country. Operations may be affected in varying degrees by government regulations with respect to restrictions on production, price controls, foreign exchange restrictions, export controls, income taxes, expropriation of property, environmental legislation and mine safety.

### *Dependence Upon Others and Key Personnel*

The success of the Company's operations will depend upon its ability to attract and retain key personnel in sales, marketing, technical support and finance and to hire outside consultants having the specific expertise required by the Company. The inability of the Company to hire or retain key personnel or retain the services of qualified consultants when required by the Company could have a material adverse effect on the operations and financial results of the Company.

### *Currency Fluctuations*

The Company maintains its accounts in Canadian and US dollars and in Mexican pesos. The Company's operations in Mexico and its payment commitments and exploration expenditures under the various agreements governing its rights to Platosa are often denominated in US dollars, making it subject to foreign currency fluctuations. Such fluctuations may materially affect the Company's financial position and results. The Company does not engage in any hedging or price protection programs to manage such risk.

### *Price Fluctuations and Share Price Volatility*

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market price of securities of many companies, particularly those considered development stage companies, have experienced wide fluctuations in price which have not necessarily been related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that continual severe fluctuations in price will not occur.



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

### *Surface Rights and Access*

Although the Company acquires the rights to some or all of the minerals located in the ground subject to the mineral tenures that it acquires, or has a right to acquire, in most cases it does not thereby acquire any rights to, or ownership of, the surface to the areas covered by its mineral tenures. In such cases, applicable mining laws usually provide for rights of access to the surface for the purpose of carrying on mining activities, however, the enforcement of such rights can be costly and time consuming. It is necessary to negotiate surface access or to purchase the surface rights if long-term access is required. There can be no assurance that, despite having the right at law to access the surface and carry on mining activities, the Company will be able to negotiate satisfactory agreements with any such existing landowners/occupiers for such access or purchase of such surface rights, and therefore it may be unable to carry out planned mining activities. In addition, in circumstances where such access is denied, or no agreement can be reached, the Company may need to rely on the assistance of local officials or the courts in such jurisdiction the outcomes of which cannot be predicted with any certainty. The inability of the Company to secure surface access or purchase required surface rights could materially and adversely affect the timing, cost or overall ability of the Company to develop any mineral deposits it may locate.

### *Conflicts of Interest*

Certain directors and officers are directors and/or officers of other mineral exploration companies and as such may, in certain circumstances, have a conflict of interest, if any, the resolution of which will be subject to and governed by procedures prescribed by the Company's governing corporate law statute which requires a director of a Company who is a party to, or is a director or an officer of, or has some material interest in any person who is a party to, a material contract or proposed material contract with the Company to disclose his or her interest and, in the case of directors, to refrain from voting on any matter in respect of such contract unless otherwise permitted under such legislation.

### **Results of Operations**

In December 2009 the Company changed its year end to December 31 from July 31. The year end change was necessary to make the Company's financial statements directly comparable to other junior mining companies on a quarterly basis and to have a consistent year end with its subsidiaries. This change in year end required the Company to have a transition year with a five month year ending December 31, 2009 with comparatives for the twelve month year ending July 31, 2009.

The following discussion of the financial condition, changes in financial condition and results of operations of the Company for the three and six month periods ended June 30, 2010 should be read in conjunction with the consolidated financial statements of the Company and notes thereto and the audited consolidated financial statements of the Company and the notes thereto for the five month period ended December 31, 2009. Effective January 1, 2010, the Company's foreign subsidiaries were deemed to be operationally and financially self sufficient, and accordingly, classified as self sustaining foreign operations. Prior to 2010 these subsidiaries were



## Management Discussion & Analysis

[August 13, 2010]

### For the six and three month periods ended June 30, 2010

considered to be integrated foreign operations since they were financially and operationally dependent upon Excellon. The change was accounted for prospectively.

#### Three month period ended June 30, 2010 compared to the three month period ended July 31, 2009

During the three month period ended June 30, 2010 the Company recorded net income of \$464,197 compared to net income of \$1,268,957 for the three month period ended July 31, 2009. Gross operating income for the quarter was \$5,476,975 compared to \$6,044,114 for the quarter ended July 31, 2009. The loss before taxes for the three months ended June 30, 2010 was \$795,922 compared to net income before income taxes for the year ended July 31, 2009 of \$2,502,000.

Cash generated from operating activities for the three month period ended June 30, 2010 was \$471,710 compared to \$4,700,109 for the three months ended July 31, 2009 and working capital as at June 30, 2010 was \$5,695,270 compared to \$7,736,614 at December 31, 2009.

Sales were \$8,047,580 for the three month period ended June 30, 2010 compared to \$10,151,661 for the three months ended July 31, 2009 and cost of production was \$2,570,605 [July 31, 2009 – \$4,107,547], resulting in gross operating income of \$5,476,976 [July 31, 2009 – \$6,044,114]. The Company ceased ore shipments in February 2009 and commenced shipments of concentrate in April 2009. For the three months ended June 30, 2010 the Company shipped 352,814 oz of payable silver, 1,729,004 lbs of payable lead and 2,430,364 lbs of payable zinc.

Expenses increased in the period from \$3,538,866 for the 3 months ended July 31, 2009 to \$6,273,422 for the three months ended June 30, 2010. The increase in expenses is explained as follows:

- i. Exploration expenditures increased to \$3,265,676 from \$536,068 in the prior period due to increased exploration activity in the current period. Drilling was temporarily suspended prior to July, 2009 in order to conserve cash due to the mine water inflow and decline in metals prices;
- ii. Salaries and mine administration increased compared to the prior period due to increased activities and the additional staff acquired in the acquisition of Silver Eagle which closed June 2009 and a non-recurring charge relating to withholding taxes for prior periods.

#### Six month period ended June 30, 2010 compared to the six month period ended July 31, 2009

During the six month period ended June 30, 2010 the Company recorded net income of \$967,294 compared to net income of \$1,890,245 for the six month period ended July 31, 2009. Gross operating income for the period was \$12,456,007 compared to \$9,528,578 for the period ended July 31, 2009. Income before taxes for the six months ended June 30, 2010 was \$351,767 compared to net income before income taxes for the same period ended July 31, 2009 of \$3,212,118. The financial performance of the Company in the prior period was negatively



## Management Discussion & Analysis

[August 13, 2010]

### For the six and three month periods ended June 30, 2010

impacted by less than a full quarter of sales activities due to the establishment of milling activities at Miguel Auza on March 19, 2009. In addition, declining market prices of silver, lead and zinc negatively impacted sales in the prior period.

Cash generated from operating activities for the six month period ended June 30, 2010 was \$3,843,954 compared to a use of \$2,135,204 for the six months ended July 31, 2009.

Sales were \$18,430,849 for the six month period ended June 30, 2010 compared to \$15,447,955 for the six months ended July 31, 2009 and cost of production was \$5,974,842 [July 31, 2009 – \$5,919,377], resulting in gross operating income of \$12,456,007 [July 31, 2009 – \$9,528,578]. The Company ceased ore shipments in February 2009 and commenced shipments of concentrate in April 2009. For the six months ended June 30, 2010 the Company shipped 758,922 oz of payable silver, 3,739,773 lbs of payable lead and 4,703,166 lbs of payable zinc.

Expenses increased in the period from \$6,330,033 for the six months ended July 31, 2009 to \$12,105,107 for the six months ended June 30, 2010. The increase in expenses is primarily due to a \$4.8 million increase in exploration at Platosa and Miguel Auza during 2010. Salaries have increased as a result of increased activity and additional staff acquired in the acquisition of Silver Eagle.

### Selected quarterly financial information

The following table sets forth selected quarterly information for the last eight quarters.

Period ended	3 months ended		3 months ended		2 months ended		3 month quarter ended						
	2010-06-30		2010-03-31		2009-12-31		2009-10-31		Jul. 31/09	Apr. 30/09	Jan. 31/09		
Sales	\$ 8,047,580	\$	10,383,269	\$	6,202,442	\$	9,829,218	\$	10,151,661	\$	5,296,294	\$	3,587,992
Net income (loss) before income taxes	\$ (795,922)	\$	1,193,688	\$	(164,306)	\$	1,852,940	\$	2,502,000	\$	710,118	\$	(988,231)
Net income (loss)	\$ 464,197	\$	549,096	\$	(230,095)	\$	967,133	\$	1,268,957	\$	621,288	\$	(857,377)
Earnings (loss) per share - basic	\$ 0.00	\$	0.00	\$	0.00	\$	0.00	\$	0.01	\$	0.00	\$	(0.01)
- diluted	\$ 0.00	\$	0.00	\$	0.00	\$	0.00	\$	0.01	\$	0.00	\$	(0.01)
Quarter Ended							2008-10-31		Jul. 31/08		Apr. 30/08		Jan. 31/08
Sales							\$ 3,922,647	\$	3,922,647	\$	9,661,688	\$	5,828,649
Net income (loss) before income taxes							\$ (5,729,578)	\$	(5,729,578)	\$	669,479	\$	(439,625)
Net and comprehensive income (loss)							\$ (4,829,394)	\$	(4,829,394)	\$	(1,660,395)	\$	(1,594,687)
Earnings (loss) per share - basic							\$ (0.03)	\$	(0.03)	\$	(0.01)	\$	(0.01)
- diluted							\$ (0.03)	\$	(0.03)	\$	(0.01)	\$	(0.01)

### Liquidity and Capital Resources

As at June 30, 2010 the Company's cash and cash equivalents were \$4,931,360 [December 31, 2009 – \$4,692,698], working capital was \$5,695,271 [December 31, 2009 – \$7,736,614] and the deficit was \$28,238,809 [July 31, 2009 – \$29,206,102].



## Management Discussion & Analysis

[August 13, 2010]

### For the six and three month periods ended June 30, 2010

For the year ended July 31, 2009 the Company carried out a rights offering to holders of common shares of Excellon (the "Rights Offering"). On the terms set out in an offering circular dated May 8, 2009 (the "Rights Offering Circular"), shareholders of record at the close of business on May 22, 2009 received one right for each common share held (each a "Right"). Eight (8) Rights permitted the holder to subscribe for one common share of Excellon at a price of \$0.23 per share. On June 18 2009, the all of the rights offered were exercised and the Company issued 24,756,804 common shares at a price of \$0.23 per share for aggregate gross proceeds of \$5,694,065. Share issuance costs consisted of an upfront managing dealer fee of \$75,000 and a soliciting dealer fee of 1.5% of the value of each subscription for common shares under the Rights Offering, with Maison Placements Canada Inc being entitled to 0.5% and any other member or members of the soliciting dealer group being entitled to the remaining 1.0%, if applicable.

#### Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

#### Summary of Securities Outstanding

##### Capital stock

Authorized:	Unlimited common shares.	
Issued at	June 30, 2010	December 31, 2009
Shares	242,822,369	241,414,036
Amount	\$ 56,105,194	\$ 55,641,977

During the six month period, the Company issued 350,000 options to employees and directors:

- [i] On March 4, 2010, the Company issued 250,000 options to certain directors, officers, employees and consultants. The options are exercisable at a price of \$0.74 per share for a period of five years ending March 4, 2015. The options vest immediately on the date of grant. The Company recorded stock-based compensation expense and contributed surplus of \$132,322 during the three months ended June 30, 2010 since issuance of these options.
- [ii] On March 24, 2010, the Company issued 100,000 options to certain directors, officers, employees and consultants. The options are exercisable at a price of \$0.99 per share for a period of five years ending March 24, 2015. The options vest over a period of three years from the date of grant. The Company recorded stock-based compensation expense and contributed surplus of \$26,626 during the three months ended June 30, 2010 since issuance of these options.



## Management Discussion & Analysis

[August 13, 2010]

### For the six and three month periods ended June 30, 2010

During the year ended December 31, 2009, the Company issued 2,900,000 options to employees and directors, as follows: 2,750,000 options at \$0.56 per option expiring on December 11, 2014; and 150,000 options at \$0.61 per option expiring on October 21, 2014. The company recorded stock-based compensation expense and contributed surplus of \$535,123 during the year ended December 31, 2009.

As of August 13, 2010 the company has 243,022,369 common shares outstanding, 247,642,369 on a fully diluted basis.

#### Warrants to purchase common shares

As at June 30, 2010, the Company had the following warrants outstanding:

No. of Warrants	Expiry Date	Price per Share Warrant [\$]
3,881,077	April 9, 2011	0.24

#### Incentive stock options

As at June 30, 2010, the following incentive stock options were outstanding:

Exercise Price	Number outstanding	Weighted average remaining contractual life
\$	#	[years]
0.40	865,000	0.82
0.83	500,000	0.97
0.97	750,000	1.65
1.41	400,000	1.82
1.58	2,355,000	2.77
1.07	200,000	3.27
0.19	2,050,000	3.70
3.91	1,326,312	1.94
0.27	100,000	4.23
0.61	100,000	4.56
0.56	2,500,000	4.70
0.74	350,000	4.93
0.19 – 3.91	11,496,312	3.03

During the three months ended June 30, 2010, options to acquire 825,000 [December 31, 2009- 1,965,000] common shares were exercised for total proceeds of \$209,000 [December 31, 2009- \$677,696]. Upon exercise of the options, the fair value of the options in contributed surplus of \$162,312 [December 31, 2009- \$278,096] was added to share capital.

During the five months ended December 31, 2009, the Company issued 2,900,000 options to employees and directors:



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

- [iii] On December 11, 2009, the Company issued 2,750,000 options to certain directors, officers, employees and consultants. The options are exercisable at a price of \$0.56 per share for a period of five years ending December 11, 2014. The options vest over a period of three years from the date of grant. The Company recorded stock-based compensation expense and contributed surplus of \$408,075 during the five month year ended December 31, 2009 since issuance of these options.
- [iv] On October 21, 2009, the Company issued 150,000 options to certain directors, officers, employees and consultants. The options are exercisable at a price of \$0.61 per share for a period of five years ending October 21, 2014. The options vest immediately. The Company recorded stock-based compensation expense and contributed surplus of \$83,950 during the five month year ended December 31, 2009 since issuance of these options.

In May 2009, the Company issued 200,000 options to an officer. The options are exercisable at a price of \$0.28 for a period of 5 years ending May 25, 2014. The options vested immediately upon issuance.

On June 2, 2009, in connection with the Company's acquisition of SEG, incentive stock options were issued to SEG option holders based on the conversion ratio of 0.2704. As a result the Company issued 1,326,312 options to SEG option holders. The exercise price of these options ranges from \$1.11 to \$5.21 and has a weighted average price of \$3.91 with expiry dates ranging from September 15, 2010 to September 15, 2013.

In June 2009, the Company issued 200,000 options to certain directors, officers, employees and consultants. The options are exercisable at a price of \$0.266 per share for a period of five years ending June 22, 2014. The options vested immediately upon issuance.

In July 2009, the Company issued 1,000,000 options to an officer. The options are exercisable at a price of \$0.33 per share for a period of five years ending July 15, 2014. The options are subject to vesting provisions, whereby 30% vest immediately upon signing, a further 20% vest one year after signing, a further 20% vest two years after signing and the balance three years after signing. Subsequent to the year end, the 700,000 unvested options were cancelled as the optionee ceased to be an officer of the Company.

### Critical Accounting Estimates

The Company's significant accounting policies are described in Note 2 of the audited annual consolidated financial statements for the year ended December 31, 2009. There were no material changes in the nature of the Company's critical accounting estimates during the three months ended June 30, 2010 from those disclosed in the Company's MD&A for the year ended December 31, 2009.

### Adoption of New Accounting Standards



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

The Company monitors the recently issued Canadian Institute of Chartered Accountants ("CICA") accounting pronouncements to assess the applicability and impact, if any, of these pronouncements on our consolidated financial statements and note disclosures.

### Financial Instruments

The Company's financial instruments as of June 30, 2010 consisted of cash and cash equivalents, short-term investments, accounts receivable, loan receivable and accounts payable and accrued liabilities. The fair value of these instruments approximates their carrying value. There were no off-balance sheet financial instruments.

Cash and cash equivalents consist solely of cash deposits with major Canadian and Mexican banks.

The Company does not use derivative or hedging instruments to reduce its exposure to fluctuations in foreign currency exchange rates.

### DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

In accordance with the provisions of National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, the CEO and the CFO have limited the scope of their design of the Company's disclosure controls and procedures ("DC&P) and internal control over financial reporting ("ICFR") to exclude controls, policies and procedures of Silver Eagle Inc., which the Company acquired on June 2, 2009. Silver Eagle's contribution to the Company's consolidated financial statements for the five months ended December 31, 2009 was approximately 24% of consolidated expenses (Silver Eagle does not generate revenues). Additionally, at December 31, 2009, Silver Eagle's current assets and current liabilities were 8% and 6% of consolidated current assets and current liabilities, respectively, and its long-term assets and long-term liabilities were both less than 15% of consolidated long-term assets and long-term liabilities.

The CEO and CFO have evaluated the effectiveness of the company's DC&P and ICFR as of December 31, 2009, pursuant to the requirements of National Instrument 52-109.

### Material Weakness

The CEO and CFO have determined and previously reported that there was an inherent weakness in the Company's internal controls which is typical of small companies, which have a limited ability to segregate incompatible functions. During 2010, the weakness was remedied by expanding the number of individuals involved in the accounting function as a result of the following changes in accounting systems and processes.



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

During 2010, the Company established an accounting function in Mexico with sufficient staff to manage the accounting for all of the Company's Mexican subsidiaries. The books and records of the Company's Mexican subsidiaries that had been managed in Toronto were relocated and converted to the financial system in Mexico that had been used by Silver Eagle Inc.

During 2010, the Company implemented a new financial reporting consolidation application. The implementation of this new application was not in response to any deficiency in the Company's internal controls; rather management believes that this application provides an increased level of control over the consolidated financial statement preparation process.

There have been no other significant changes in the Company's internal control over financial reporting during 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The AcSB has set January 1, 2011, as the date that IFRS will replace current Canadian GAAP for publicly accountable enterprises, which includes Canadian reporting issuers. Financial reporting under IFRS differs from Canadian GAAP in a number of respects, some of which are significant. IFRS on the date of adoption also is expected to differ from current IFRS due to new IFRS standards and pronouncements that are expected to be issued before the changeover date.

The Company has commenced the process to changeover its basis of accounting from Canadian GAAP to IFRS effective with the Company's first quarter report in fiscal 2011. The transition date of January 1, 2010 will require the restatement, for comparative purposes, of the consolidated balance sheet at December 31, 2009 and the Company's interim and annual consolidated fiscal statements for fiscal 2010.

The Company has identified the following major differences between its current accounting policies and those required or expected to apply in preparing IFRS consolidated financial statements.

#### **Property, Plant and Equipment (PP&E)**

The Company is capital intensive, incurring significant expenditures on property (including mineral properties), plant and equipment. IFRS requires significant components of PP&E for which different depreciation methods or rates are applicable to be depreciated separately. IFRS also requires the separate recognition and depreciation of certain non-physical components such as major overhauls and refurbishments, as well as certain major spare parts. The Company in converting to IFRS will reassess its accounting for PP&E to determine how much componentization of PP&E is required. Capitalization of administration and indirect overhead costs is not permitted under IFRS. In addition, IFRS provides more prescriptive guidance regarding capitalization of borrowing costs.



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

The first time adoption of IFRS generally requires full retrospective application of IFRS (i.e. the recreation of financial results "as if" IFRS accounting policies had always applied). The retrospective application of IFRS policies will be challenging and depends upon the state of the Company's current depreciation practices and PP&E records. IFRS 1 allows certain transitional elections relating to opening carrying values of PP&E. Working through these elections is complex but the Company is adopting a practical approach.

### Impairment of PP&E

IFRS has one impairment model covering PP&E, goodwill and intangible assets. Assets are evaluated either individually or grouped in a CGU for impairment testing purposes. A CGU is the smallest group of assets that generates independent cash inflows and may be smaller than asset groups or reporting units as defined under Canadian GAAP.

The timing of impairment testing under IFRS is consistent with that testing under Canadian GAAP.

Impairment charges relating to PP&E, goodwill and intangible assets are recognized if an asset's (CGU's) carrying amount exceeds its recoverable amount. Impairment charges relating to PP&E may be more frequent under IFRS as the cash flow test for recoverability is based on discounted cash flows, rather than being based on undiscounted cash flows.

Reversals of impairment charges, other than goodwill, are possible under IFRS as the Company will be required to reverse such charges if the circumstances leading to the impairment have changed.

### Foreign Currency

The concept of functional currency is similar to the measurement currency concept under Canadian GAAP. However, differences in functional currencies can arise due to differences in the criteria to be considered and the priority given to certain of the criteria under IFRS. Functional currency depends on an entity's primary economic environment with particular emphasis on the currency that mainly influences sales prices and costs of labour, materials and other costs. At this time, the Company believes that the functional currency under IFRS of at least one of its Mexican subsidiaries may be the USD rather than the MXD that is now used as the measurement currency.

The retroactive adoption of a different functional currency can be very complex and time consuming and will affect determinations made under other standards, such as income taxes and financial instruments. A validation of functional currency for each entity will be completed early in the IFRS changeover process.

### Closure and Environmental Costs

IFRS requires that decommissioning provisions (asset retirement obligation) be recognized when a present obligation from a past event exists and it is probable that future costs will be incurred to restore or rehabilitate a property or other long-lived asset.



## Management Discussion & Analysis

[August 13, 2010]

**For the six and three month periods ended June 30, 2010**

The definition of a provision under IFRS is broader than Canadian GAAP. IFRS requires a liability to be recorded even when only a constructive obligation exists, which may have been created by promises or established patterns of carrying out similar activities. In addition, measurement of the liability under IFRS differs in several respects including use of a current discount rate specific to the liability and presentation of accretion of the discount as interest expense in the income statement.

### Future Changes To Accounting Standards

#### International Financial Reporting Standards (IFRS)

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises, effective for the interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The Company will adopt IFRS for its year beginning January 1, 2011. The adoption date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010, reconciliation from equity under Canadian GAAP to IFRS at the date of transition (January 1, 2010) and reconciliation from profit and loss under Canadian GAAP to IFRS for the prior year comparable quarter and year to date for 2010.

#### Project Update

The changeover to IFRS from Canadian GAAP is a significant undertaking, and as a result, the Company has established a dedicated IFRS changeover resource to lead this process. The audit committee of the Company is kept informed of management's decisions on accounting policy choices under IFRS, project status and IFRS developments. The Company completed a work plan for the design and implementation phases of the project which are underway.

Key activities that have commenced and will continue in 2010 include:

- Revision of accounting policies – The project lead is in the process of drafting accounting papers to document IFRS decisions made. These accounting papers will serve to document the Company's new accounting policies, procedures and changes in controls.
- Preparation and auditor procedures on the IFRS opening balance sheet for January 1, 2010 — Significant differences between Canadian GAAP and IFRS impacting the Company's opening balance sheet for January 1, 2010 are in the process of being measured. The Company's external auditor will perform procedures on the IFRS opening balance sheet later this year.
- Preparation of draft IFRS financial statements templates, disclosures and related decisions – This activity has not yet commenced and is scheduled for execution and completion by Q4 of 2010.
- Dual reporting — Management has determined that changes to existing financial reporting systems are not required to handle the 2010 dual reporting period. IFRS adjustments for the comparative quarters will not be numerous or overly complex. As a temporary solution, comparative 2010 interim and annual consolidated financial



## Management Discussion & Analysis

[August 13, 2010]

**For the six and three month periods ended June 30, 2010**

statements and disclosure data are being compiled using end user computing tools. The project will cut over to the Company's existing financial systems effective January 1, 2011. At that time new accounts required for IFRS will be opened in the charts of accounts and the 2010 IFRS adjustments to opening balances will be made.

- People — All personnel impacted by the IFRS changeover will receive training appropriate to their role on some or all of the following:
  - IFRS technical topics
  - New accounting and reporting procedures
  - Changes in processes and controls

Training plans are currently being developed and some training will begin as early as Q3 2010.

- Communication programs – The project lead regularly communicates project status and significant impacts of transition to affected parties.

In addition to the early-stage progress made on these aspects of the project, it is expected and planned that significant progress to completing the steps above will occur in the remainder of the third and fourth quarters of 2010.

### Impact of IFRS on the 2011 Consolidated Financial Statements

The Company has identified the following major differences between its current accounting policies and those required or expected to apply in preparing IFRS consolidated financial statements along with their directional impact on financial reporting in 2011 (and restated 2010 comparatives). This list is not meant to be comprehensive but reflects the differences management has determined to be the most relevant at this time.

Standards	IFRS accounting differences	Preliminary findings
Mineral properties <i>(Included in IFRS 6, IAS 16 and IAS 38)</i>	Under IFRS a distinction is made between tangible and intangible assets such as mining concession rights and other licenses. Such assets are not separately presented but are included as asset classes under property, plant and equipment and intangible assets.	The Company has determined that this change will likely result in certain reclassifications between mining properties and intangible assets. The net impact is currently being assessed by the Company.
Property, plant and equipment (PPE) <i>(IAS 16)</i>	After initial recognition, there is the option to measure PPE using the cost model or the revaluation model under IAS	The Company will continue to use the cost model. There is no impact on the consolidated financial statements.



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

Standards	IFRS accounting differences	Preliminary findings
	<p>16. IAS 16 is more explicit in how to separately account for the significant parts of an asset and about the treatment of costs incurred subsequently to add to, replace part of, or service an item.</p>	<p>The Company has determined that its PPE assets will not need to be re-componentized as of the transition date. There is no impact on the consolidated financial statements.</p>
<p>Impairment of assets (IAS 36)</p>	<p>IAS 36 does not include a separate “trigger” for recognizing impairment losses based on an assessment of undiscounted cash flows. Instead a single-step impairment testing of assets at the independent cash generating unit (CGU) level will be required. In addition, future cash flows used to determine the value of assets for impairment testing are discounted.</p>	<p>Impairments are likely to occur more often under IFRS as the undiscounted cash flow assessment is removed and assets are assessed directly at their recoverable amount (fair value). The Company has determined that it has two CGUs, the mine at Platosa and the concentrator at Miguel Auza. Management is currently assessing the consequent impact of this fact.</p>
<p>Decommissioning liability (asset retirement obligation) (IAS37)</p>	<p>IAS 37 requires the use of management’s best estimate of the enterprise’s cash outflows, rather than fair value measurement on initial recognition, and requires the use of current interest rates in each estimate. Present value should be used only where the effect of the time value of money is material.</p>	<p>The Company has determined that this change in measurement will likely increase the decommissioning liability. There will be a corresponding increase in PPE. The net impact is currently being assessed by the Company.</p>
<p>Foreign currency translation (IAS 21)</p>	<p>IAS 21 takes a “functional currency” approach whereby each entity, whether a stand-</p>	<p>The Company has determined that the functional currency of the reporting entity and all</p>



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

Standards	IFRS accounting differences	Preliminary findings
	<p>alone entity, an entity with foreign operations (such as a parent) or a foreign operation (such as a subsidiary) determines its functional currency (the currency of the primary economic environment in which the entity operates). The results and financial position of any individual entity within the reporting entity are then translated in accordance with the standard.</p>	<p>foreign subsidiaries is the US dollar. The sales prices for the Company's products are denominated and settled in US dollars. The US dollar is also often the currency in which the Company's costs are denominated and settled. The Company will therefore report in US dollars under IFRS effective from the transition date.</p>
<p>Earnings per share (EPS) (IAS 33)</p>	<p>IAS 33 has a different method for calculating the number of incremental shares to be included in determining year-to-date EPS. Dilution under IAS 33 is a reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, options or warrants are exercised, or ordinary shares are issued upon the satisfaction of specified conditions. The treasury stock method is not used.</p>	<p>As the treasury stock method assumes that only "in the money" option proceeds are used to purchase registered shares of the Company at the average market price during the year, the number of shares used to compute diluted EPS will be greater; all incremental shares will be included. The Company has determined that this change in measurement will slightly increase the dilution of EPS. The net impact is currently being assessed by the Company.</p>
<p>Income taxes (IAS 12)</p>	<p>Although the broad principles are the same, there are numerous specific differences under IAS 12. In addition the tax aspects of each</p>	<p>The net impact is currently being assessed by the Company. Depending on the changes involved, this may involve the recognition of additional deferred tax assets</p>



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

Standards	IFRS accounting differences	Preliminary findings
	accounting policy choice and requirement as well as each IFRS 1 election set out below will need to be considered.	and liabilities and could impact the actual tax to be paid by the company. The Company retains the services of professional tax advisers to arrive at informed decisions and to ensure that all requirements of tax regulatory bodies continue to be addressed under IFRSs.
<p>The Company has assessed other relevant standards, including, but not limited to, IAS 18 <i>Revenue</i>, IAS 23 <i>Borrowing Costs</i>, IAS 24 <i>Related Party Disclosures</i>, IAS 27 <i>Consolidated and Separate Financial Statements</i>, IFRS 2 <i>Share-based Payments</i>, IFRS 3 <i>Business Combinations</i> and a group of standards covering <i>Financial Instruments</i>, IAS 32, IAS 39 and IFRS 7.</p> <p>The Company has also chosen certain exemptions from the retrospective applications of IFRS at the transition date that are provided by IFRS 1. The selections that are relevant to the Company are set out in the following table. The Company's current intentions are also indicated.</p>		
Optional exemption	Company's election	
<i>Business combinations</i>	A first time adopter may elect not to retrospectively restate any business combinations prior to the date of transition (i.e. prospective application of IFRS 3. The Company intends to use this exemption.	
<i>Share-based payment transactions</i>	A first time adopter is encouraged but not required to retrospectively apply IFRS 2 to equity instruments (equity settled transactions) granted on or before November 7, 2002. Similarly, a first time adopter is encouraged but not required to apply IFRS 2 to equity instruments that were granted after November 7, 2002 and that vested before the date of transition to IFRS. The Company intends to use this exemption.	
<i>Fair value or revaluation as deemed cost</i>	This exemption allows the Company to initially measure an item of Property, Plant or Equipment on transition to IFRS at fair value or a previous valuation under Canadian GAAP.	



## Management Discussion & Analysis

[August 13, 2010]

For the six and three month periods ended June 30, 2010

Optional exemption	Company's election
	The Company may selectively apply this exemption when historical information is not available for specific assets.
<i>Cumulative translation differences</i>	A first time adopter is permitted to reset the cumulative translation differences to zero by recognizing the full amount in the retained earnings of the opening balance sheet. This exemption allows entities to avoid the adjustments to the balance which would be required as a result of the IFRS transition adjustments of foreign operations. The Company intends to use this exemption.
<i>Decommissioning liabilities included in the cost of property, plant and equipment</i>	An entity may elect not to apply the requirements of IFRIC 1, <i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i> retrospectively in determining the IFRS carrying amount of the assets to which the decommissioning liabilities relate. Adopting this option would provide relief because the Company will not have to attempt to determine when and how the changes in estimates arose. Instead, it will have to recalculate the liability in accordance with IFRS at the transition date and then adjust the cost of the asset and accumulated depreciation. The Company intends to use this exemption.
<i>Borrowing costs</i>	This exemption allows the Company to adopt IAS 23, which requires the capitalization of borrowing costs on all qualifying assets, prospectively from the date of the opening IFRS balance sheet. The Company intends to use this exemption.

The IFRS accounting differences, preliminary findings concerning accounting policies and the IFRS 1 selections set out above are based on current IFRS which are subject to change. The Company's reporting under IFRS in 2011 will be based on the standards effective as at December 31, 2011. Accordingly, the Company continues to monitor standards development by the International Accounting Standards Board and the AcSB.



EXCELLON RESOURCES INC.

## **Management Discussion & Analysis**

[August 13, 2010]

**For the six and three month periods ended June 30, 2010**

### **Additional Sources of Information**

Additional disclosures pertaining to the Company, including its most recent audited and unaudited interim financial statements, management information circular, material change reports, press releases and other information, are available on the SEDAR website at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.excellonresources.com](http://www.excellonresources.com)