



Excellon Resources Inc.

Consolidated Financial Statements

December 31, 2013

in thousands of U.S. dollars

EXCELLON

Management's Responsibility for Financial Reporting

The management of Excellon Resources Inc. is responsible for the integrity and fair presentation of the accompanying consolidated financial statements.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and reflect management's best estimates and judgements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has developed and maintains a system of internal controls to obtain reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is reliable. Any system of internal control over financial reporting has inherent limitations, including the possibility of circumvention and overriding of controls, and therefore, can provide only reasonable assurance with respect to financial statement preparation and presentation. Management concludes that at December 31, 2013, the Company's internal control over financial reporting was effective. The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee, which is composed entirely of independent directors. The Audit Committee of the Board of Directors has met with the Company's independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval. The Audit Committee also reviews the quarterly financial statements and recommends them for approval to the Board of Directors, reviews with management the Company's systems of internal control and approves the scope of the independent auditors audit and non-audit work.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants, Licensed Public Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

(Signed) "*Brendan Cahill*"

Chief Executive Officer

(Signed) "*Rupy Dhadwar*"

Chief Financial Officer

March 26, 2014





March 26, 2014

Independent Auditor's Report

To the Shareholders of Excellon Resources Inc.

We have audited the accompanying consolidated financial statements of Excellon Resources Inc., which comprise the consolidated statement of financial position as at December 31, 2013 and 2012 and the consolidated statement of comprehensive income (loss), statement of changes in equity, and the statement of cash flow for the years then ended and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Excellon Resources Inc. as at December 31, 2013 and 2012 and its financial performance and its cash flows for the years then ended in accordance with IFRS.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Excellon Resources Inc.

Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	<i>Notes</i>	December 31, 2013 \$	December 31, 2012 \$
Assets			
Current assets			
Cash and cash equivalents		2,591	1,369
Marketable securities	5	2,607	4,152
Trade receivables		1,849	5,467
Income taxes receivable		2,689	3,122
Inventories	6	2,916	2,022
Other current assets		1,288	1,575
		<u>13,940</u>	<u>17,707</u>
Non-current assets			
Property, plant and equipment	7	21,160	20,972
Mineral rights	8	22,727	24,405
Deferred income tax assets	14	7,250	8,059
Total assets		<u>65,077</u>	<u>71,143</u>
Liabilities			
Current liabilities			
Trade payables		3,643	2,377
Non-current liabilities			
Provisions	9	1,783	1,637
Total liabilities		<u>5,426</u>	<u>4,014</u>
Equity			
Share capital	10	77,434	77,453
Contributed surplus		10,676	9,329
Accumulated other comprehensive income		(1,955)	1,810
Deficit		(26,504)	(21,463)
Total equity		<u>59,651</u>	<u>67,129</u>
Total liabilities and equity		<u>65,077</u>	<u>71,143</u>

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

Approved by the Board

Director

Director

"Timothy J. Ryan"

"Alan R. McFarland"

Excellon Resources Inc.
Consolidated Statements of Income (loss) and
Comprehensive Income (loss)
For the year ended December 31, 2013 and 2012

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

	<i>Notes</i>	December 31, 2013 \$	December 31, 2012 \$
Revenues	<i>18</i>	33,332	36,273
Production Costs		(20,692)	(16,401)
Depletion and amortization		(3,910)	(2,788)
Cost of Sales	<i>11a</i>	(24,602)	(19,189)
Gross Profit		8,730	17,084
Administrative expenses		(3,944)	(6,104)
Share based payments		(1,617)	(1,129)
Depletion and amortization		(270)	(105)
General and administrative expenses	<i>11b</i>	(5,831)	(7,338)
Exploration		(6,718)	(9,907)
Other income	<i>11c</i>	275	777
Income (loss) before financing and tax		(3,544)	616
Finance income		1	18
Finance costs		(74)	(110)
Net finance costs		(73)	(92)
Income (loss) before income tax		(3,617)	524
Income tax recovery (expense)	<i>14</i>	(1,424)	7,884
Net income (loss)		(5,041)	8,408
Other comprehensive income (loss)			
Foreign currency translation differences		(3,765)	365
Total other comprehensive income (loss)		(3,765)	365
Total comprehensive income (loss)		(8,806)	8,773
Earnings (loss) per share			
Basic		\$ (0.09)	\$ 0.15
Diluted		\$ (0.09)	\$ 0.15
Weighted average number of shares			
Basic		55,041,132	55,365,303
Diluted		55,115,903	55,489,507

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

Excellon Resources Inc.

Consolidated Statements of Changes in Equity For the year ended December 31, 2013 and 2012

(in thousands of U.S. dollars)

	Share capital \$	Contributed surplus \$	Accumulated other com- prehensive income (loss) \$	Deficit \$	Total equity \$
Balance - January 1, 2012	77,797	9,639	1,445	(29,871)	59,010
Net income (loss) for the year	-	-	-	8,408	8,408
Total other comprehensive income (loss)	-	-	365	-	365
Total comprehensive income (loss)	-	-	365	8,408	8,773
Employee share options:					
Value of services recognized	29	1,100	-	-	1,129
Proceeds on issuing shares	42	-	-	-	42
Share payment for mineral rights	1,062	-	-	-	1,062
Repurchased shares under normal course issuer bid	(1,477)	(1,410)	-	-	(2,887)
Balance - December 31, 2012	77,453	9,329	1,810	(21,463)	67,129
Balance - January 1, 2013	77,453	9,329	1,810	(21,463)	67,129
Net income (loss) for the year	-	-	-	(5,041)	(5,041)
Total other comprehensive income (loss)	-	-	(3,765)	-	(3,765)
Total comprehensive income (loss)	-	-	(3,765)	(5,041)	(8,806)
Employee share options:					
Value of services recognized	62	1,371	-	-	1,433
Proceeds on issuing shares	91	-	-	-	91
Share payment for mineral rights	199	-	-	-	199
Repurchased shares under normal course issuer bid	(371)	(24)	-	-	(395)
Balance - December 31, 2013	77,434	10,676	(1,955)	(26,504)	59,651

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

Excellon Resources Inc.
Consolidated Statements of Cash Flow
For the year ended December 31, 2013 and 2012

(in thousands of U.S. dollars)

	December 31, 2013 \$	December 31, 2012 \$
Cash flow provided by (used in)		
Operating activities		
Net income (loss) for the year	(5,041)	8,408
Adjustments for:		
Depletion and amortization	4,180	2,893
Deferred income tax	811	(8,390)
Share-based compensation	1,617	1,129
Post-employment benefits	21	59
Rehabilitation provision - accretion	74	75
Rehabilitation provision - change of estimate	(122)	(34)
Unrealized loss (gain) on marketable securities	1,545	848
Unrealized loss (gain) on foreign intercompany loans	(1,386)	(1,457)
Write-down of property, plant and equipment	-	100
Operating cash flows before changes in working capital	1,699	3,631
Changes in items of working capital:		
Trade receivables	3,618	(4,919)
Income taxes receivable	433	(7,092)
Inventories	(894)	(563)
Other current assets	287	(525)
Trade payables	1,266	(126)
Net cash provided by (used in) operating activities	6,409	(9,594)
Investing activities		
Purchase of marketable securities	-	(5,000)
Purchase of property, plant and equipment	(4,125)	(2,777)
Proceeds from sale of processing equipment	-	1,744
Purchase of royalty interests	-	(2,400)
Purchase of mineral rights	(18)	(390)
Net cash used in investing activities	(4,143)	(8,823)
Financing activities		
Proceeds on issuance of shares	91	42
Repurchased shares under normal course issuer bid	(395)	(2,887)
Net cash used in financing activities	(304)	(2,845)
Effect of exchange rate changes on cash and cash equivalents	(740)	369
Increase (decrease) in cash and cash equivalents	1,222	(20,893)
Cash and cash equivalents - Beginning of the year	1,369	22,262
Cash and cash equivalents - End of the year	2,591	1,369
Interest	-	35
Cash paid for income tax	469	6,600

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

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Notes to the Consolidated Financial Statements

December 31, 2013 and 2012

(in thousands of US Dollars)

1. GENERAL INFORMATION

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

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

2. BASIS OF PRESENTATION

a. Statement of compliance

The Company prepares its consolidated financial statements in accordance 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 I of the Chartered Professional Accountants Canada. The consolidated financial statements have been prepared under the historical cost method, except for certain financial instruments measured at fair value. The Company has consistently applied the accounting policies used in preparation of these consolidated financial statements throughout all the periods presented. Critical accounting estimates and judgments used by management in the preparation of these consolidated financial statements are presented in note 4.

The consolidated financial statements were approved by the Board of Directors for issue on March 26, 2014.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a. Consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Company where control is achieved when the Company has the power to govern the financial and operating policies of the entity. Control is normally achieved through ownership, directly or indirectly, of more than 50% of the voting power. The Company owns directly and indirectly 100% of all the subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

ii. Transactions eliminated on consolidation

Intercompany transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

b. Segment reporting

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(in thousands of US Dollars)

The Company has two reportable segments based on a geographical basis. During the year, the consolidated entity operated in Mexico and Canada.

The Mexican operation is principally engaged in the acquisition, exploration, evaluation, and development of mining properties. The Platosa property is in commercial production and is earning revenue through the sale of silver-lead concentrate and silver-zinc concentrate to a single customer that accounts for 100% of revenues.

The Canadian operations are principally engaged in the acquisition, exploration and evaluation of mining properties in Ontario and Quebec.

Non-current assets located at the corporate office in Canada are minor in relation to the total.

c. Foreign currency transactions and translation

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

i. Transactions and balances

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

ii. Translation

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

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

d. Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially

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all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

The Company's financial instruments primarily consist of cash and cash equivalents (classified as loans and receivables), trade receivable (classified as loans and receivables), trade payable (classified as other financial liabilities). The fair values of these financial instruments approximate their carrying values. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

Loans and receivables and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net income (loss).

Held for trading financial instruments are measured at fair value. All gains and losses are included in net income (loss) for the period in which they arise.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from remeasurement are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in "other gains and losses (net)". Available-for-sale investments are classified as non-current, unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

e. Cash and Cash equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and highly liquid short-term investments with a maturity date of three months or less when acquired.

f. Inventories

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

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

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

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

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g. Property, plant and equipment

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

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

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

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

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

Amortization charges on a unit-of-production basis are based on indicated and inferred mineral resources.

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

h. Exploration and evaluation expenditures

Acquisitions of mineral rights are capitalized. Subsequent exploration and evaluation costs related to an area of interest are expensed as incurred on a project-by-project basis pending determination of indicated resources. Upon determination of indicated resources, further development costs are capitalized.

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

i. Development expenditure

Development expenditures incurred by or on behalf of the Company are accumulated separately for each area of interest in which an indicated resource has been identified. Such expenditures comprise costs directly attributable to the construction of a mine and the related infrastructure.

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

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

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

No amortization is recognized in respect of development properties until they are reclassified as “mining properties”.

Each development property is tested for impairment in accordance with the policy in note 3 m ii Impairment.

j. Mining properties

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

Amortization is charged using the units-of-production method. The units-of-production basis results in a amortization charge proportional to the depletion of indicated and inferred resources.

Mine properties are tested for impairment in accordance with the policy in note 3 m ii *Impairment*.

k. Decommissioning and site rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

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

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

l. Mineral Rights

Mineral rights are carried at cost and amortized using a units-of-production method based on the resources that exist in the location that has access to such rights.

Methods of amortization and estimated useful lives are reassessed annually and any change in estimate is taken into account in the determination of future amortization charges.

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m. Impairment

i. Financial assets

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

ii. Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset or CGU recoverable amount is estimated. Recoverability of assets or CGU (mine operation) to be held and used are measured by a comparison of the carrying value of the asset to the recoverable amount, which is the higher of value in use and fair value less costs to sell.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

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

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

n. Future Termination Benefits

Employees of the Company's Mexican mines are entitled by local labor laws to employee leaving indemnities, generally based on each employee's length of service, employment category and remuneration.

The cost of these retirement benefits is determined using the projected unit credit method. Current service cost and any past service cost are recognized in the same line item in the statements of income as the related compensation cost. Changes in actuarial assumptions used to determine the accrued benefit obligation are recognized in full in the period in which they occur, in the statements of income.

The most significant assumptions used in accounting for post employment benefits are the discount rate, the mortality and the life of mine assumptions. The discount rate is used to determine the net present value of future liabilities. Each year, the unwinding of the discount on those liabilities is charged to the Company's income statement as the interest cost. The life of mine and mortality assumptions are used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities. The values attributed to the liabilities are assessed in

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accordance with the advice of independent qualified actuaries.

o. Current and deferred income tax

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

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

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except in the case of a subsidiary where timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined on a non discount basis using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

i. Royalties

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

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(in thousands of US Dollars)

p. Share-based payments

i. Share option plan

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

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

ii. Equity-settled transactions

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

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

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

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

iii. Cash-settled transactions

A Deferred Share Unit ("DSU") Plan was established for directors and certain employees. The cost of the DSUs is measured initially at fair value based on the closing price of the Company's common shares preceding the day the DSUs are granted. The cost of the DSUs is recognized as a liability under share based compensation plans in the consolidated statements of financial position and as a general and administrative expense in the consolidated statements of earnings. The liability is remeasured to fair value based on the Market Price of the Company's common shares at each reporting date up to and including the settlement date, with changes in fair value recognized in general and administrative expenses in the consolidated statements of earnings.

A Restricted Share Unit ("RSU") Plan was established for directors, certain employees and eligible contractors of the Company. The RSUs vest equally over a three year period and are paid in cash based on the Market Price of the Company's publicly traded common shares on the entitlement date or dates. The cost of the RSUs is measured initially at fair value on the

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authorization date based on the Market Price of the Company's common shares preceding the day the RSUs are authorized by the Board of Directors. The cost of RSUs is recognized as a liability under share based compensation plans, with the current portion recognized in accounts payable and accrued liabilities, in the consolidated statements of financial position and as a general and administrative expense in the consolidated statements of earnings over the vesting period. The liability is remeasured to fair value based on the Market Price of the Company's common shares at each reporting date up to and including the settlement date, with changes in fair value recognized in general and administrative expenses.

q. Revenue recognition

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

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

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

Certain products are sold on a 'provisional pricing' basis where the sale price received by the group is subject to a final adjustment at the end of a period that may be up to 120 days after delivery to the customer. The final sale price is based on the market price on the quotational date in the contract of sale. Sales are initially recognized when the revenue recognition criteria have been satisfied, using market prices at that date. At each reporting date the provisionally priced shipment is marked to market based on the forward selling price for the quotational point specified in the contract until that point is reached. Revenue is only recognized on this basis where the forward selling price can be reliably measured.

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

r. Earnings per share

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

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

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s. ADOPTION OF NEW ACCOUNTING STANDARDS

IFRS 10, "Consolidated Financial Statements" was issued by the IASB to replace IAS 27, Consolidated and Separate Financial Statement and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any changes in the consolidation status of any of its subsidiaries and investees.

IFRS 11, "Joint Arrangements" supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. The Company has classified its joint arrangements and concluded that the adoption of IFRS 11 did not result in any changes in the accounting for its joint arrangements.

IFRS 12 Disclosures of Interests in Other Entities was issued by the IASB to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities. The Company assessed its interests in other entities on January 1, 2013 and determined that the adoption of IFRS 12 did not result in any changes in the accounting for its interests in other entities.

IFRS 13, "Fair Value Measurement" is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 1, "Presentation of financial statements" has been amended to require entities to separate items presented in other comprehensive income (loss) into two groups, based on whether or not items may be recycled in the future. Entities that choose to present other comprehensive income (loss) items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted. The Company has adopted the amendments to IAS 1 effective January 1, 2013 and has reclassified comprehensive loss items of the comparative period. These changes did not result in any adjustments to other comprehensive income (loss) or comprehensive loss.

IAS 19, "Employee benefits" has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income (loss) as they arise, without subsequent recycling to net loss. This is consistent with the Company's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but

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instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures. The adoption of IAS 19 did not require any changes to the recognition of actuarial gains and losses or past service costs used by the Company and did not result in any retrospective adjustments to prior period comparative information.

IAS 28, "Investments in associates and joint ventures" ("IAS 28") was re-issued by the IASB in May 2011. IAS 28 continues to prescribe the accounting for investments in associates but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that have an ownership interest with joint control of, or significant influence over, an investee. The Company assessed its investments in associates and joint ventures on January 1, 2013 and determined that the amendments to IAS 28 did not result in any changes in the accounting for its investments in associates and joint ventures.

IAS 36, "Impairment of assets" ("IAS 36") has been amended to require entities to disclose the recoverable amount of an asset or cash generating unit when an impairment loss has been recognized or reversed, and to provide detailed disclosure on how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed. These changes did not result in any changes in the accounting for impairment of assets.

t. 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.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value change due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income (loss) rather than the statement of loss. IFRS 9 amends some of the requirements of IFRS 7, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income (loss), and guidance on financial liabilities and derecognition of financial instruments. In December 2011, amendments to IFRS 7 were issued to require additional disclosures on transition from IAS 39 to IFRS 9.

In November 2013, IFRS 9 was amended to include guidance on hedge accounting and to allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in entity's own credit risk, from financial liabilities designated under the fair value option, in other comprehensive income (loss) (without having to adopt the remainder of IFRS 9). In July 2013, the IASB tentatively decided to defer the mandatory effective date of IFRS 9. The IASB agreed that the mandatory effective date should no longer be annual periods beginning on or after January 1, 2015 but rather be left open pending the finalization of the impairment and classification and measurement.

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IAS 32, "Financial instruments: presentation" ("IAS 32") was amended by the IASB in December 2011. The amendment clarifies that an entity has a legally enforceable right to offset financial assets and financial liabilities if that right is not contingent on a future event and it is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments to IAS 32 are effective for annual periods beginning on or after January 1, 2014.

IFRIC 21, "Levies" ("IFRIC 21") was issued in May 2013 which sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognized.

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

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The following areas involve a higher degree of judgement or are areas where assumptions and estimates are significant to the consolidated financial statements. Actual results may differ significantly from these estimates included in the consolidated financial statements.

i. Valuation of mining properties and other long lived assets

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

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

As at December 31, 2013 the Company determined that there were no indicators of impairment in carrying values of mining properties or any other long lived assets or cash generating units ("CGU").

ii. Useful economic life of property, plant and equipment

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

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iii. Decommissioning and site rehabilitation provision

The Company records any decommissioning and site rehabilitation obligation as a long-term liability in the period in which the related environmental disturbance occurs, based on the net present value of the estimated future costs (note 9). This obligation is adjusted at the end of each fiscal period to reflect the passage of time and changes in the estimated future costs underlying the obligation. In determining this obligation, management must make a number of assumptions about the amount and timing of future cash flows and discount rate to be used.

The undiscounted estimate of the asset retirement obligation ("ARO") has been discounted to its present value at a risk free rate which represents the 10 year Government of Canada bond rate and an estimate of the Company's pricing in the market to obtain debt. Assuming that all other variables remain constant, a one percent change in the discount rate would result in the liability change of approximately \$101. The estimate also assumes a long term inflation rate. Assuming all other variables remain constant, a one percent change in the long term inflation rate would result in the liability change of approximately \$95. Assuming all other variables remain constant, a 10% change in the undiscounted estimate of the ARO would result in the liability change of approximately \$127.

iv. Calculation of share-based compensation expense

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

v. Determination of reserves and resources

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

vi. Deferred income taxes

Income taxes are calculated using the liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. Deferred tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, including forecasts, it is probable that they will be realized.

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vii. Income taxes

Uncertainties exist with respect to the interpretation of tax regulations. The Company establishes provisions for taxes, based on reasonable estimates, for liabilities to the tax authorities that are uncertain as to their amount and the probability of their occurrence. The amount of such provisions is based on various factors, such as experience with previous tax audits and differing legal interpretations by the taxable entity and the responsible tax authority. The final resolution of some of these items may give rise to a material change in the amount of the income tax expense recorded in consolidated statement of income (loss) and related tax payments

5. MARKETABLE SECURITIES

The Company invested \$5,000 in the Sprott Physical Silver Trust to hold units reflecting an underlying investment in 134,732 ounces of silver. These securities have been classified as a "held for trading financial instrument" during the year. An unrealized loss of \$1,545 was recorded in income in recognition of a decrease in value as at December 31, 2013 (December 31, 2012 - \$848).

6. INVENTORIES

	December 31, 2013	December 31, 2012
	\$	\$
Ore	187	29
Concentrate	1,049	578
Production spares	1,680	1,415
	<u>2,916</u>	<u>2,022</u>

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7. PROPERTY, PLANT AND EQUIPMENT

	Mining properties \$	Mining equipment \$	Processing equipment \$	Assets under construction \$	Total \$
At January 1, 2012					
Cost	20,584	8,636	8,814	767	38,801
Accumulated amortization	(12,330)	(3,196)	(2,121)	-	(17,647)
	8,254	5,440	6,693	767	21,154
Year ended December 31, 2012					
Opening net book value	8,254	5,440	6,693	767	21,154
Additions	1,115	856	38	768	2,777
Reclassification	-	864	185	(1,049)	-
Disposals	-	(3)	(1,741)	-	(1,744)
Amortization	(615)	(1,066)	(1,023)	-	(2,704)
Write-down	-	-	(100)	-	(100)
Exchange differences	546	409	587	47	1,589
Closing net book value	9,300	6,500	4,639	533	20,972
At December 31, 2012					
Cost	22,810	10,928	7,685	533	41,956
Accumulated amortization	(13,510)	(4,428)	(3,046)	-	(20,984)
	9,300	6,500	4,639	533	20,972
Year ended December 31, 2013					
Opening net book value	9,300	6,500	4,639	533	20,972
Additions	2,068	1,253	200	604	4,125
Reclassification	1,115	-	-	(1,115)	-
Amortization	(1,210)	(1,344)	(1,183)	-	(3,737)
Exchange differences	(169)	(30)	(9)	8	(200)
Closing net book value	11,104	6,379	3,647	30	21,160
At December 31, 2013					
Cost	25,293	12,055	7,829	30	45,207
Accumulated amortization	(14,189)	(5,676)	(4,182)	-	(24,047)
	11,104	6,379	3,647	30	21,160

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8. MINERAL RIGHTS

	Platosa (Mexico) \$	Beschefer (Canada) \$	Desantis (Canada) \$	Total \$
At January 1, 2012				
Cost	2,255	8,163	10,960	21,378
Accumulated amortization	(659)	-	-	(659)
	1,596	8,163	10,960	20,719
Year ended December 31, 2012				
Opening net book value	1,596	8,163	10,960	20,719
Additions	2,400	648	804	3,852
Depreciation	(189)	-	-	(189)
Exchange differences	222	(81)	(118)	23
Closing net book value	4,029	8,730	11,646	24,405
At December 31, 2012				
Cost	4,927	8,730	11,646	25,303
Accumulated amortization	(898)	-	-	(898)
	4,029	8,730	11,646	24,405
Year ended December 31, 2013				
Opening net book value	4,029	8,730	11,646	24,405
Additions	-	-	217	217
Amortization	(443)	-	-	(443)
Exchange differences	(151)	(554)	(747)	(1,452)
Closing net book value	3,435	8,176	11,116	22,727
At December 31, 2013				
Cost	4,755	8,176	11,116	24,047
Accumulated amortization	(1,320)	-	-	(1,320)
	3,435	8,176	11,116	22,727

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9. PROVISIONS

	Post-retirement benefits (1) \$	Rehabilitation provision (2) \$	DSU and RSU (3) \$	Total \$
Year ended December 31, 2012				
Opening balance	228	1,201	-	1,429
Change in estimate	59	(34)	-	25
Accretion for the year	-	75	-	75
Exchange differences	18	90	-	108
Closing Balance	305	1,332	-	1,637
Year ended December 31, 2013				
Opening balance	305	1,332	-	1,637
Change in estimate	21	(122)	-	(101)
Accretion for the year	-	74	-	74
New liabilities	-	-	193	193
Variation of fair value	-	-	(9)	(9)
Exchange differences	(3)	(8)	-	(11)
Closing Balance	323	1,276	184	1,783

(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 7.6% (December 31, 2012 – 6.5%) based on yield curve from short and long term government bonds, annual salary and minimum wage increase rate of 3.6% (December 31, 2012 – 3.5%) and the life of the mine of ten years.

(2) Rehabilitation provision estimate is described in note 4 iii.

(3) The Deferred and Restricted Share Unit Plans are described in Note 10.

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10. SHARE CAPITAL

	Number of shares (000's)	\$
Year ended December 31, 2012		
Opening balance (1)	55,660	77,797
Shares issued on exercise of stock options	17	71
Shares issued on Beschefer agreement	216	648
Shares issued on Desantis agreement	168	414
Share purchase buyback	(1,025)	(1,477)
Balance at December 31, 2012	55,036	77,453
Year ended December 31, 2013		
Opening balance	55,036	77,453
Shares issued on exercise of stock options	100	153
Shares issued on Desantis agreement	118	199
Share purchase buyback	(265)	(371)
Balance at December 31, 2013	54,989	77,434

- (1) On May 8, 2013 the Company completed a share consolidation of the issued and outstanding common shares on the basis of one (1) post-consolidated common share for every five (5) pre-consolidated common share issued and outstanding (the "Share Consolidation"). The Company's number of outstanding options were consolidated on the same basis.

The number of shares and options presented in these consolidated financial statements have been adjusted to include the effect of this share consolidation.

SHARE OPTION PROGRAM (EQUITY-SETTLED)

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

Disclosure of share option program

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

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	2013		2012	
	Weighted Average Exercise Price		Weighted Average Exercise Price	
	(CAD)	Options	(CAD)	Options
Outstanding at January 1	\$ 4.25	2,449,396	\$ 5.35	2,752,989
Granted	\$ 1.75	1,452,500	\$ 2.70	400,000
Exercised	\$ 0.95	(100,000)	\$ 2.50	(16,667)
Expired	\$ 6.83	(629,729)	\$ 10.50	(427,994)
Forfeited	\$ 2.56	(27,667)	\$ 3.40	(258,933)
Outstanding at December 31	\$ 2.70	3,144,500	\$ 4.25	2,449,396
Exercisable at December 31	\$ 3.15	2,059,488	\$ 4.50	2,033,729

As at December 31, 2013, the following stock options were outstanding and exercisable:

CAD	Stock Options Outstanding	Weighted Average Remaining Contractual Life (years)	Stock Options Exercisable	Weighted Average Exercise Price (CAD)
\$1.14 to \$1.49	782,500	4.95	267,491	\$ 1.15
\$1.50 to \$1.99	130,000	4.42	43,334	\$ 1.73
\$2.00 to \$5.21	2,232,000	2.64	1,748,663	\$ 3.50
	3,144,500	3.29	2,059,488	\$ 3.15

Inputs for measurement of grant date fair values

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

	2013	2012
Fair value at grant date	\$ 1.19	\$ 1.89
Share price at grant date	\$ 1.75	\$ 2.70
Exercise price	\$ 1.75	\$ 2.70
Risk free interest rate	1.42%	1.23%
Expected life of options in years	5.00	5.00
Expected volatility	85.75%	91.25%
Expected dividend yield	0.00%	0.00%
Estimated forfeiture rate	2.99%	4.09%

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Share-based compensation expense

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

	2013	2012
	\$	\$
Share options granted in 2010	-	227
Share options granted in 2011	103	448
Share options granted in 2012	244	455
Share options granted in 2013	1,079	-
	1,426	1,130

DEFERRED SHARE UNITS ("DSU")

During 2013, the Company implemented a DSU plan in respect of the directors of the Corporation. The DSU's are currently paid in cash based on the five-day volume weighted average price ("Market Price") of the Company's publicly traded common shares on settlement dates elected by a director between the retirement date and the December 15th of the calendar year subsequent to the year of the director's retirement. All grants under the plan are fully vested upon credit to an eligible directors' account. The value of the payout is determined by multiplying the number of DSU vested at the payout date by the market price of the Company's shares on the five trading days immediately prior to a settlement date, with settlement in cash.

During the year, the Company granted 172,587 DSU's with a market value of CAD\$196 at the date of grants to non-executive directors. During the year ended December 31, 2013, there were no DSU settlements. Total share based compensation expensed in 2013 related to vested DSU's was CAD\$188. The fair value of the DSU's are classified as a liability and disclosed in note 9.

RESTRICTED SHARE UNITS ("RSU")

During 2013, the Company implemented a RSU plan in respect of officers and employees of the Corporation. The RSU Plan entitles officers or employees to a cash payment at the end of a terms or performance period of up to three years following the date of the award. The value of the payout is determined by multiplying the number of RSUs vested at the payout date by the Market Price of the Company's shares on the five trading days immediately prior to a payout date with settlement in cash.

During the year, the Company granted 278,507 RSU's with a market value of CAD\$317 at the date of grant to officers and employees. During the year ended December 31, 2013, there were no RSU settlements. Total share based compensation expensed in 2013 related to vested RSU's was CAD\$8. The fair value of the RSU's are classified as a liability and disclosed in note 9.

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11. EXPENSE BY NATURE

(a) Cost of sales comprises the following:

	2013	2012*
	\$	\$
Direct mining and milling costs (1)	21,356	16,349
Changes in inventories	(664)	(100)
Depletion, depreciation and amortization	3,910	2,788
Royalties	-	152
Cost of sales	24,602	19,189

* As a result of an illegal blockade, production was halted from July 8th to October 16th 2012.

(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:

	2013	2012
	\$	\$
Office and overhead costs	2,250	3,025
Salaries and wages	1,694	3,078
Share based compensation	1,617	1,130
Depletion and amortization	270	105
General and administrative expenses	5,831	7,338

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

	2013	2012
	\$	\$
Impairment of long term assets	-	100
Unrealized loss (gain) on marketable securities	1,545	851
Foreign exchange loss (gain)	(1,715)	(1,703)
Change in provision estimates	(105)	(25)
Other expense (income)	(275)	(777)

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12. COMPENSATION OF KEY MANAGEMENT

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

	2013	2012
	\$	\$
Salaries and short-term employee benefits	1,524	2,399
Share-based payments	1,481	1,126
	3,005	3,525

13. RELATED PARTIES

The corporate secretary of the Company is a partner in a firm that provides legal services to the Company. During the year, the Company incurred legal services of \$171 (2012 – \$182) with an outstanding payable balance of \$19 at December 31, 2013 (December 31, 2012 – \$18).

14. INCOME TAX

The Company's provision for (recovery of) income taxes differs from the amount computed by applying the combined Canadian federal and provincial income tax rates to income (loss) before income tax as a result of the following:

	2013	2012
	\$	\$
Statutory tax rates	26.50%	26.50%
Income taxes (recovery) computed at the statutory rates	(959)	139
Non-deductible (taxable) items	739	(1,014)
Change in tax benefit not recognized	(433)	(7,080)
Foreign tax differentials, rate changes and other	1,257	71
Special mining royalty	820	-
Provision for income taxes (recovery)	1,424	(7,884)

The enacted or substantively enacted tax rates in Canada (26.5% in 2013) and Mexico (30% in 2013) where the Company operates are applied in the tax provision calculation.

In December 2013, the Mexican government enacted a significant tax reform which has an effective date of January 1, 2014. The tax reform includes a tax-deductible special mining royalty of 7.5% on EBITDA and an extraordinary mining royalty of 0.5% on precious metals revenue. In addition, the Mexican corporate tax rate is to remain at 30%, whereas it had been scheduled to be 29% in 2014 and 28% in 2015.

The 7.5% mining royalty is treated as an income tax in accordance with IFRS for financial reporting purpose, as it is based on a measure of revenue less certain specified costs. On substantive enactment, a taxable temporary difference arises, as certain mining assets related to extractive activities have a book basis but no tax basis for purpose of the royalty. The Company has recognized an initial deferred tax

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liability of \$820 as at December 31, 2013 in respect of this special mining royalty. This deferred tax liability will be drawn down to \$nil as a reduction to tax expense over the life of mine as the mine and its related assets are depleted or depreciated.

Provision for income taxes consists of the following:

	2013	2012
	\$	\$
Current income taxes (recovery)	613	506
Deferred income taxes (recovery)	811	(8,390)
	1,424	(7,884)

The following table reflects the Company's deferred income tax assets:

	2013	2012
	\$	\$
Non-capital losses carried forward	6,566	6,232
Resource related assets	(1,446)	62
Property, plant and equipment	2,156	2,057
Prepaid expenses, deposits and other	874	543
Deferred income tax assets	8,150	8,894
Deferred income and other	-	(743)
Accrued revenue	(80)	(92)
Special mining royalty	(820)	-
Net deferred income tax assets	7,250	8,059

The following temporary differences and non-capital losses have not been recognized in the consolidated financial statements.

	2013	2012
	\$	\$
Non-capital losses carried forward	32,325	33,278
Capital losses	5,245	5,601
Resource related deductions	15,625	15,824
Share issuance costs	223	494
Property, plant and equipment	198	309
Prepaid expenses, deposits and other	1,223	968
	54,839	56,474

As at December 31, 2013, the Company has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

:

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	2013	2012
	\$	\$
2014	1,806	2,032
2015	465	496
2016	182	194
2017	5,711	6,098
2018	13,836	13,376
2019	579	560
2020 and thereafter	31,635	32,260
	54,214	55,016

As at December 31, 2013, the Company has Canadian capital losses of \$10,490 (2012 - \$11,201) that may be carried forward indefinitely and applied against capital gains of future years.

At December 31, 2013, \$nil (2012 - \$nil) was recognized as a deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future; and the investments are not held for resale and are expected to be recouped by continued use of these operations by the subsidiaries. The amount of temporary differences not booked for these unremitted earnings at December 31, 2013 is \$16,358 (2012 - \$17,964).

During the year, the Mexican tax authority (Servicio de Administración Tributaria – “SAT”) in the state of Zacatecas completed an income tax audit of the 2008 and 2009 years in respect of one of the Company's Mexican subsidiaries. As a result of this audit, on February 24, 2014 the Company received a notice of reassessment from SAT with respect to 2009 denying deductions in the amount of 115.2 million pesos (\$8,800) that relate primarily to foreign exchange losses. In addition, SAT has notified the Company that it will be issuing a notice of reassessment for the 2008 year, denying deductions in the amount of 72.9 million pesos (\$5,600) relating primarily to foreign exchange losses. The combined impact of the 2009 reassessment and the pending 2008 reassessment is a reduction in the available non-capital loss balance totaling 188.1 million pesos (\$14,400), which, consequently, would result in a reduction in the deferred tax asset balance of \$4,300 and a corresponding increase in deferred income tax expense. In addition, the Company would be subject to penalty and interest, an amount that has not been included in this estimate.

The Company is of the view that both reassessments are without merit and accordingly, the Company has appealed the 2009 reassessment and will be appealing the pending 2008 reassessment through the SAT's appeals procedures, a process that could take up to 24 months before a final decision is made.

The Company believes that it is more likely than not that its position will be sustained and no amounts related to this issue have been recorded in the consolidated financial statements as at December 31, 2013.

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15. 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. For the year ended December 31, 2013, the Company recorded \$12,618 (2012 – \$8,387) in revenues from provisionally priced sales on the statement of income (loss) and comprehensive income (loss), which are subject to adjustment pending final settlement subsequent to the year. As at December 31, 2013, the Company has recorded embedded derivatives in the amount of \$1,453 (2012 – \$4,130) in trade receivables.

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 assets and 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:

	Fair value hierarchy	2013 \$	2012 \$
Financial assets			
Loans and receivables			
Trade receivables	Level 2	1,849	5,467
Fair value through profit and loss			
Marketable securities	Level 1	2,607	4,152
		4,456	9,619

There were no transfers between levels 1, 2 or 3 during the year.

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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. Although the Company has the ability to address its price-related exposures through the use of options, futures and forward contracts, it does not generally enter into such arrangements. Similarly, derivative financial instruments are not used to reduce these financial risks.

Economic dependence

The Company's sole customer is Trafigura Mexico, S.A. de C/V (a subsidiary within the Trafigura group of companies) ("Trafigura") accounting for 100% of sales of \$33,332 (2012 - \$36,273). An amount of \$1,453 is included in the trade receivables from Trafigura as at December 31, 2013 (December 31, 2012 - \$4,130).

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 customer, Trafigura. 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. In addition, the Company is obligated to make annual payments of US \$561 under a surface rights lease with the Ejido La Sierrita. These annual payments are subject to a CPI adjustment and the final payment is in 2037. The surface right lease is currently in the process of being rescinded by both parties subject to official resolution by the courts.

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

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 December 31, 2013, a weakening

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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 \$21.

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 December 31, 2013, there are no forward exchange contracts outstanding 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's policy is not to hedge its exposure to silver. The London Silver Spot price average, in USD per ounce, was \$23.83 in 2013 (2012 - \$31.15). The Company estimates that an increase (decrease) in the commodity prices by 10% in 2013 with all other variables held constant would have resulted in an increase (decrease) in net income of approximately \$3,000.

Interest rate risk

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

16. 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.

17. SEGMENT REPORTING

The Chief Operating Decision Maker (CODM) is the Company's Board of Directors. The CODM monitors the operating results of segments separately in order to allocate resources between segments and to assess performance.

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	MEXICO		CANADA	
	2013	2012	2013	2012
	\$	\$	\$	\$
Property, plant and equipment	21,160	20,964	-	8
Capital expenditures	(4,125)	(2,777)	-	-
Mineral rights	3,435	4,029	19,292	20,376
Total assets	41,010	45,426	24,067	25,717
Revenue	33,332	36,273	-	-
Cost of sales	(24,602)	(19,189)	-	-
General and administrative expenses	-	-	(5,831)	(7,338)
Exploration	(5,134)	(7,109)	(1,584)	(2,798)
Other expenses	(271)	1,854	546	(1,077)
Net finance costs	(73)	(92)	-	-
Income tax	(1,424)	7,884	-	-
Net income (loss)	1,828	19,621	(6,869)	(11,213)

18. REVENUES

PROVISIONAL SALES

Under the terms of the concentrate sales contract, silver, lead and zinc 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. Final pricing is not determined until a subsequent date, typically one or four months later. Price recorded at the time of sale may differ from the actual final price received from the customer due to changes in market prices for metals. The price volatility is considered an embedded derivative in accounts receivable. The embedded derivative is recorded at fair value at each reporting period until settlement occurs, with the changes in fair value recorded to revenues.

During the year, the Company recognized a charge against revenues of \$1,373 for sales made prior to 2013 relating to metal price reduction that occurred between January 1, 2013 and the date of final settlement, primarily in the three month period ended June 30, 2013.

At the end of the year, the Company recognized a charge against revenue of \$612 on \$12,618 provisionally priced sales to reflect the fair value of the embedded derivative at the end of the year.

In 2014, the Company entered into a new sales agreement with Trafigura with most notable changes in the settlement terms of one or two months after delivery compared to the previous contract terms of one or four months after delivery.