



Excellon Resources Inc.

Consolidated Financial Statements

December 31, 2014 and 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, 2014, 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 Professional 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 24, 2015





March 24, 2015

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 statements of financial position as at December 31, 2014 and December 31, 2013 and the consolidated statements of loss and comprehensive loss, statements of changes in equity and statements 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, 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.

*PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215*

"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, 2014 and December 31, 2013 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Excellon Resources Inc.'s ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Excellon Resources Inc.

Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

		December 31, 2014	December 31, 2013
	Notes	\$	\$
Assets			
Current assets			
Cash and cash equivalents		3,467	2,591
Marketable securities	5	-	2,607
Trade receivables		1,778	1,849
Income taxes receivable		2,556	2,689
Inventories	6	2,364	2,916
Other current assets		1,552	1,288
		11,717	13,940
Non-current assets			
Property, plant and equipment	7	18,384	21,160
Mineral rights	8	5,975	22,727
Deferred income tax assets	14	7,735	7,250
Total assets		43,811	65,077
Liabilities			
Current liabilities			
Trade payables		5,541	3,643
Non-current liabilities			
Provisions	9	1,984	1,783
Total liabilities		7,525	5,426
Equity			
Share capital	10	77,323	77,434
Contributed surplus		11,504	10,676
Accumulated other comprehensive income		(6,745)	(1,955)
Deficit		(45,796)	(26,504)
Total equity		36,286	59,651
Total liabilities and equity		43,811	65,077

Going Concern

2b

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 Loss and Comprehensive Loss

For the year ended December 31, 2014 and 2013

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

	<i>Notes</i>	December 31, 2014 \$	December 31, 2013 \$
Revenues	18	30,767	33,332
Production Costs		(24,526)	(20,692)
Depletion and amortization		(3,859)	(3,910)
Cost of Sales	11a	(28,385)	(24,602)
Gross profit		2,382	8,730
Administrative expenses		(3,383)	(3,944)
Share based payments	10	(650)	(1,617)
Depletion and amortization		(247)	(270)
General and administrative expenses	11b	(4,280)	(5,831)
Exploration		(2,069)	(6,718)
Other income (expense)	11c	(763)	275
Impairment of mineral rights	8	(15,463)	-
Finance costs		(89)	(74)
Loss before income tax		(20,282)	(3,617)
Income tax recovery (expense)	14	990	(1,424)
Net loss		(19,292)	(5,041)
Other comprehensive loss			
Foreign currency translation differences		(4,790)	(3,765)
Total other comprehensive loss		(4,790)	(3,765)
Total comprehensive loss		(24,082)	(8,806)
Loss per share			
Basic		\$ (0.35)	\$ (0.09)
Diluted		\$ (0.35)	\$ (0.09)
Weighted average number of shares			
Basic		54,951,415	55,041,132
Diluted		55,013,952	55,115,903

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, 2014 and 2013

(in thousands of U.S. dollars)

	Share capital \$	Contributed surplus \$	Accumulated other com- prehensive income (loss) \$	Deficit \$	Total equity \$
Balance - January 1, 2013	77,453	9,329	1,810	(21,463)	67,129
Net loss for the year	-	-	-	(5,041)	(5,041)
Total other comprehensive loss	-	-	(3,765)	-	(3,765)
Total comprehensive 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
Balance - January 1, 2014	77,434	10,676	(1,955)	(26,504)	59,651
Net loss for the year	-	-	-	(19,292)	(19,292)
Total other comprehensive loss	-	-	(4,790)	-	(4,790)
Total comprehensive loss	-	-	(4,790)	(19,292)	(24,082)
Employee share options:					
Value of services recognized	2	543	-	-	545
Proceeds on issuing shares	3	-	-	-	3
Deferred and Restricted share units					
Reclassified from provisions (note 9)		161			161
Value of units recognized	-	107	-	-	107
Repurchased shares under normal course issuer bid	(116)	17	-	-	(99)
Balance - December 31, 2014	77,323	11,504	(6,745)	(45,796)	36,286

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, 2014 and 2013
(in thousands of U.S. dollars)

	December 31, 2014 \$	December 31, 2013 \$
Cash flow provided by (used in)		
Operating activities		
Net loss for the year	(19,292)	(5,041)
Adjustments for:		
Depletion and amortization	4,106	4,180
Deferred income tax	(486)	811
Share-based compensation	650	1,617
Post-employment benefits	423	21
Rehabilitation provision - accretion	86	74
Rehabilitation provision - change of estimate	104	(122)
Realized loss on sale of marketable securities	316	-
Unrealized loss (gain) on marketable securities	-	1,545
Unrealized loss (gain) on foreign intercompany loans	(378)	(1,386)
Write down of property plant and equipment	161	-
Impairment of mineral rights	15,463	-
Operating cash flows before changes in working capital	1,153	1,699
Changes in items of working capital:		
Trade receivables	71	3,618
Income taxes receivable	133	433
Inventories	552	(894)
Other current assets	(264)	287
Trade payables	1,898	1,266
Net cash provided by operating activities	3,543	6,409
Investing activities		
Proceeds from sale of marketable securities	2,291	-
Purchase of property, plant and equipment	(3,340)	(4,125)
Purchase of mineral rights	-	(18)
Net cash used in investing activities	(1,049)	(4,143)
Financing activities		
Proceeds on issuance of shares	3	91
Repurchased shares under normal course issuer bid	(99)	(395)
Net cash used in financing activities	(96)	(304)
Effect of exchange rate changes on cash and cash equivalents	(1,522)	(740)
Increase in cash and cash equivalents	876	1,222
Cash and cash equivalents - Beginning of the year	2,591	1,369
Cash and cash equivalents - End of the year	3,467	2,591
Interest	-	-
Cash paid for income tax	217	469

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

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPERATION AND GOING CONCERN

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 1 of the Chartered Professional Accountants of 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.

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

The consolidated financial statements were approved by the Board of Directors for issue on March 24, 2015.

b. Going Concern

These consolidated financial statements have been prepared in accordance with IFRS applicable to a going concern which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. For the year ended December 31, 2014, the Company reported a net loss of \$19,292, which includes an impairment charge of \$15,463 on its Canadian exploration properties. The Company's working capital has also declined during the year to \$6,176 as at December 31, 2014. The Company must secure sufficient funding to cover continued reductions on margins should silver price remain at current price levels in order to meet current liabilities and capital expenditure requirements at its operating mine in Mexico. These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is pursuing financing alternatives to fund the Company's operations so it can continue as a going concern. Management plans to secure the necessary financing through a combination of equity and debt instrument arrangements. Nevertheless, there is no assurance that these Initiatives will be successful.

The Company's ability to continue as a going concern is dependent upon its ability to generate positive cash flows from operations. These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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

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

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

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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 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.

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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.

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

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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. When a licence is relinquished or a project is abandoned, the related costs are immediately recognized in profit or loss.

Exploration properties that contain estimated Proven and Probable Mineral Reserves, but for which a development decision has not yet been made, are subject to periodic review for impairment when events or changes in circumstances indicate the project's carrying value may not be recoverable.

Exploration and evaluation assets are reclassified to "Mine Properties - Mines under construction" when the technical feasibility and commercial viability of extracting the Mineral Resources or Mineral Reserves are demonstrable and construction has commenced or a decision to construct has been made. Exploration and evaluation assets are assessed for impairment before reclassification to "Mines under construction", and the impairment loss, if any, is 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".

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 an 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.

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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.

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, primarily property, plant and equipment and mineral rights, 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

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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 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 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 substantively enacted by the

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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. In December 2013, the Mexican government enacted a significant tax reform which has an effective date of January 1, 2014. The tax reform includes special mining royalty of 7.5% on EBITDA. 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.

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

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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 in 2013. 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.

On April 29, 2014, the plan was amended and approved by the Company's shareholders allowing for DSUs to be paid in cash or in awards of common shares either from treasury or from market purchases. Accordingly, the expense is recorded in the consolidated statement of loss and comprehensive loss in share based payments and credited to equity under contributed surplus since the payment in cash or common shares is at the option of the Company.

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 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.

On April 29, 2014, the plan was amended and approved by the Company's shareholders allowing for RSUs to be paid in cash or in awards of common shares either from treasury or from market purchases. Accordingly, the expense is recorded in the consolidated statement of loss and comprehensive loss in share based payments and credited to equity under contributed surplus since the payment in cash or common shares is at the option of the Company.

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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 90 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.

s. Adoption of new accounting standards

IAS 32, Financial Instruments (amendment) relating to presentation application guidance on the offsetting of financial assets and financial liabilities. amendment to IAS 32 had no effect on previously reported results or on the results for the current period.

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.

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

IFRIC 21, Levies (“IFRIC 21”) In May 2013, IASB issued IFRIC 21 Levies, 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 the recognition of a liability to pay a levy. The adoption of this standard does not have impact on the Company’s consolidated financial statements.

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. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

IFRS 15, Revenue from contracts with Customers (“IFRS 15”) was issued by the IASB in May 2014. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on January 1, 2017. The Company is currently evaluating the impact this standard is expected to have on its consolidated financial statements.

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

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

increase in the taxes payable by the mine.

Prior to December 31, 2014 the Company determined that there were indicators of impairment in carrying values for exploration properties in Canada that resulted in an impairment charge being recognized during the year (note 8).

As at December 31, 2014, the Company's market capitalization was less than its net book value which is considered to be an impairment indicator and consequently management performed an impairment assessment at the CGU level in Mexico. This assessment was based on the current LOM for the CGU. Based on a post-tax discount rate of 5% and a long term silver price of US\$17 per ounce, the CGU shows a positive net present value. Accordingly, management concluded that no impairment write down had to be considered.

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.

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 five 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 \$61. 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 \$64. Assuming all other variables remain constant, a 10% change in the undiscounted estimate of the ARO would result in the liability change of approximately \$131.

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.

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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.

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

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

5. MARKETABLE SECURITIES

The Company had invested \$5,000 in the Sprott Physical Silver Trust to hold units representing an underlying investment in 134,732 ounces of silver. During the year, the Company sold these securities for proceeds of \$2,300, resulting in a realized loss of \$2,700 on the investment and recognition of \$316 realized loss during the year. These securities had been classified as a "held for trading financial instrument" during the year.

6. INVENTORIES

	December 31, 2014	December 31, 2013
	\$	\$
Ore	165	187
Concentrate	275	1,049
Production spares	1,924	1,680
	<u>2,364</u>	<u>2,916</u>

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

7. PROPERTY, PLANT AND EQUIPMENT

	Mining properties \$	Mining equipment \$	Processing equipment \$	Assets under construction \$	Total \$
At January 1, 2013					
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
Year ended December 31, 2014					
Opening net book value	11,104	6,379	3,647	30	21,160
Additions	1,973	883	21	463	3,340
Reclassification	-	-	132	(132)	-
Amortization	(1,441)	(1,394)	(849)	-	(3,684)
Write down	-	(153)	-	(8)	(161)
Exchange differences	(1,251)	(647)	(340)	(33)	(2,271)
Closing net book value	10,385	5,068	2,611	320	18,384
At December 31, 2014					
Cost	24,482	11,072	7,094	320	42,968
Accumulated amortization	(14,097)	(6,004)	(4,483)	-	(24,584)
	10,385	5,068	2,611	320	18,384

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

8. MINERAL RIGHTS

	Platosa (Mexico) \$	Beschefer (Canada) \$	DeSantis (Canada) \$	Total \$
At January 1, 2013				
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
Year ended December 31, 2014				
Opening net book value	3,435	8,176	11,116	22,727
Additions	-	-	-	-
Amortization	(422)	-	-	(422)
Impairments (1)	-	(6,084)	(9,379)	(15,463)
Exchange differences	(53)	(369)	(445)	(867)
Closing net book value	2,960	1,723	1,292	5,975
At December 31, 2014				
Cost	4,534	1,723	1,292	7,549
Accumulated amortization	(1,574)	-	-	(1,574)
	2,960	1,723	1,292	5,975

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

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

9. PROVISIONS

	Post-retirement benefits (1) \$	Rehabilitation provision \$	DSU and RSU \$	Total \$
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
Year ended December 31, 2014				
Opening balance	323	1,276	184	1,783
Change in estimate	423	104	-	527
Accretion for the year	-	86	-	86
Variation of fair value	-	-	-	-
Reclassified to contributed surplus (2)	-	-	(161)	(161)
Exchange differences	(77)	(151)	(23)	(251)
Closing Balance	669	1,315	-	1,984

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

Key financial assumptions used in the above estimate include an annual discount rate of 6.5% (December 31, 2013 – 7.6%) based on the yield curve from short and long term Mexican government bonds, annual salary and minimum wage increase rate of 3.6% (December 31, 2013 – 3.6%) and the life of mine of five years.

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

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

10. SHARE CAPITAL

	Number of shares (000's)	\$
Year ended December 31, 2013		
Opening balance (1)	55,036	77,453
Shares issued on exercise of stock options	100	153
Shares issued on Canadian exploration property - Desantis	118	199
Shares purchased under normal course issuer bid	(265)	(371)
Balance at December 31, 2013	54,989	77,434
Year ended December 31, 2014		
Opening balance	54,989	77,434
Shares issued on exercise of stock options	3	5
Shares purchased under normal course issuer bid	(88)	(116)
Balance at December 31, 2014	54,904	77,323

SHARE OPTION PROGRAM (EQUITY-SETTLED)

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

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

Disclosure of share option program

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

	Weighted Average Exercise Price (CAD)	Options
Outstanding at January 1, 2013	\$ 4.25	2,449,396
Granted	\$ 1.75	1,452,500
Exercised	\$ 0.95	(100,000)
Expired	\$ 6.83	(629,729)
Forfeited	\$ 2.56	(27,667)
Outstanding at December 31, 2013	\$ 2.70	3,144,500
Exercisable at December 31, 2013	\$ 3.15	2,059,488

Outstanding at January 1, 2014	2.70	3,144,500
Granted	\$ 1.38	100,000
Exercised	\$ 1.14	(2,500)
Expired	\$ 2.81	(470,000)
Forfeited	\$ 1.87	(20,000)
Outstanding at December 31, 2014	\$ 2.65	2,752,000
Exercisable at December 31, 2014	\$ 2.88	2,216,160

As at December 31, 2014, 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	870,000	4.01	549,157	\$ 1.16
\$1.50 to \$1.99	130,000	3.42	86,667	\$ 1.73
\$2.00 to \$5.21	1,752,000	2.09	1,580,336	\$ 3.54
	2,752,000	2.76	2,216,160	\$ 2.88

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:

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

	2014	2013
Fair value at grant date	\$ 0.84	\$ 1.19
Share price at grant date	\$ 1.38	\$ 1.75
Exercise price	\$ 1.38	\$ 1.75
Risk free interest rate	1.47%	1.42%
Expected life of options in years	5.00	5.00
Expected volatility	73.97%	85.75%
Expected dividend yield	0.00%	0.00%
Estimated forfeiture rate	4.09%	2.99%

Share-based compensation expense

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

	2014	2013
	\$	\$
	(CAD)	(CAD)
Share options granted in 2011	-	103
Share options granted in 2012	77	244
Share options granted in 2013	470	1,079
Share options granted in 2014	53	-
	600	1,426

DEFERRED SHARE UNITS ("DSU")

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

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

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

During the year, the Company granted 198,839 DSUs (2013 – 172,587 DSUs) with a market value of CAD\$190 (2013 -CAD\$196) at the date of grant to non-executive directors as compensation in lieu of cash director fees. During the year, there were no DSU settlements (2013 – nil). Total share based compensation expensed in the year related to vested DSUs was \$52 (2013 –\$177). As at December 31, 2014, the Company has 371,426 outstanding DSUs (December 31, 2013 – 172,587).

RESTRICTED SHARE UNITS (“RSU”)

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

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

During the year, the Company granted 15,000 RSUs (2013 – 278,507 RSUs) with a market value of CAD\$22 (2013 - CAD\$317) at the date of grant to officers and employees. During the year, there were no RSU settlements (2013 – nil). Total share based compensation expensed in the year related to vested RSUs was \$54 (2013 –\$8). As at December 31, 2014, the Company has 293,507 outstanding RSUs (December 31, 2013 – 278,507).

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

11. EXPENSE BY NATURE

(a) Cost of sales comprises the following:

	2014	2013
	\$	\$
Direct mining and milling costs (1)	23,786	21,356
Changes in inventories	740	(664)
Depletion, depreciation and amortization	3,859	3,910
Cost of sales	28,385	24,602

(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:

	2014	2013
	\$	\$
Office and overhead costs	1,802	2,250
Salaries and wages	1,581	1,694
Share based compensation	650	1,617
Depletion and amortization	247	270
General and administrative expenses	4,280	5,831

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

	2014	2013
	\$	\$
Unrealized loss (gain) on marketable securities	-	1,545
Realized loss on marketable securities sold	316	-
Foreign exchange loss (gain)	341	(1,715)
Change in provision estimates	106	(105)
Other expense (income)	763	(275)

12. COMPENSATION OF KEY MANAGEMENT

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

	2014	2013
	\$	\$
Salaries and short-term employee benefits	1,299	1,524
Share-based payments	564	1,481
	1,863	3,005

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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 \$62 (2013 - \$171) with an outstanding payable balance of \$27 at December 31, 2014 (December 31, 2013 - \$19).

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:

	2014	2013
	\$	\$
Statutory tax rates	26.50%	26.50%
Income taxes (recovery) computed at the statutory rates	(5,375)	(959)
Non-deductible (taxable) items	4,640	739
Change in tax benefit not recognized	(449)	(433)
Foreign tax differentials	(298)	13
Other	592	1,244
Special mining royalty	(100)	820
Provision for income taxes (recovery)	(990)	1,424

The enacted or substantively enacted tax rates in Canada (26.5% in 2014) and Mexico (30% in 2014) where the Company operates are applied in the tax provision calculation.

Effective January 1, 2014, tax reforms in Mexico became effective, which include a tax-deductible special mining royalty of 7.5% on EBITDA and an extraordinary mining royalty of 0.5% on precious metals revenue.

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 liability of \$720 as at December 31, 2014 (as at December 31, 2013 – \$820) 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.

	2014	2013
	\$	\$
Current income taxes (recovery)	(504)	613
Deferred income taxes (recovery)	(486)	811
	(990)	1,424

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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

	2014	2013
	\$	\$
Non-capital losses carried forward	8,244	6,566
Resource related assets	(899)	(1,446)
Property, plant and equipment	614	2,156
Prepaid expenses, deposits and other	524	874
Deferred income tax assets	8,483	8,150
Deferred income and other	(116)	-
Accrued revenue	88	(80)
Special mining royalty	(720)	(820)
Net deferred income tax assets	7,735	7,250

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

	2014	2013
	\$	\$
Non-capital losses carried forward	26,101	32,325
Capital losses	5,955	5,245
Resource related deductions	20,501	15,625
Share issuance costs	108	223
Property, plant and equipment	216	198
Prepaid expenses, deposits and other	262	1,223
	53,143	54,839

As at December 31, 2014, 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:

	2014	2013
	\$	\$
2014	-	1,806
2015	2,038	465
2016	-	182
2017	5,149	5,711
2018	12,427	13,836
2019	520	579
2020	-	-
2021 and thereafter	31,421	31,635
	51,555	54,214

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

As at December 31, 2014, the Company has Canadian capital losses of \$11,910 (2013 - \$10,490) that may be carried forward indefinitely and applied against capital gains of future years.

At December 31, 2014, \$nil (2013 - \$nil) was recognised 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, 2014 is \$12,196 (2013 - \$16,358).

In 2013, the Mexican tax authority (Servicio de Administración Tributaria – "SAT") in the state of Zacatecas completed an income tax audit of the 2008 and 2009 years in respect of one of the Company's Mexican subsidiaries. As a result of this audit, on February 24, 2014 and March 13, 2014 the Company received notice of reassessments from SAT for 2009 and 2008 respectively, denying deductions in the amount of 115.2 million pesos (\$8,800) and 72.9 million pesos (\$5,600) respectively that relate primarily to foreign exchange losses. The combined impact of the 2009 and 2008 reassessments is a reduction in the available non-capital loss balance totaling 188.1 million pesos (\$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. Management was of the view that there was a strong case to support the Company's position, particularly because the SAT has only made adjustments to foreign exchange losses but has not made offsetting adjustments to foreign exchange gains recognized in the same period. Accordingly, the Company appealed the 2008 & 2009 reassessments through the SAT's appeals procedures. Since management believed that it was more likely than not that the Company's position will be sustained, no amounts related to this issue had been recorded in the financial statements as of December 31, 2013.

In December 2014, the Company was notified by SAT that a favourable resolution was issued, confirming the Company's tax treatment of the foreign exchange losses in its 2009 annual tax return. This resolution should also be able to support the tax treatment that was previously denied in the 2008 tax return, for which the appeal remains outstanding that year end. Accordingly, management believes, based on the tax advice from its tax advisors that it is more likely than not that the Company's position will be sustained, no amounts related to this issue has been recorded in the financial statements as of December 31, 2014.

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, 2014, the Company recorded \$3,232 (2013 – \$12,618) in revenues from provisionally priced sales on the statement of loss and comprehensive loss, which are subject to adjustment pending final settlement subsequent to the year. As at December 31, 2014, the

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

Company has recorded embedded derivatives in the amount of \$218 (December 31, 2013 – \$1,453) 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	2014 \$	2013 \$
Financial assets			
Loans and receivables			
Trade receivables	Level 2	1,778	1,849
Fair value through profit and loss			
Marketable securities	Level 1	-	2,607
		1,778	4,456

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

Assets measured at fair value on a non-recurring basis

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Aggregate fair value
Mineral Rights (1)	-	-	3,500	3,500

(1) Canadian exploration properties were written down by \$15,436 which is included in the statement of loss and comprehensive loss for 2014.

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.

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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 \$30,767 (2013 - \$33,332). An amount of \$218 is included in the trade receivables from Trafigura as at December 31, 2014 (December 31, 2013 - \$1,453).

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\$580 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 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 \$4.

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.

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

At December 31, 2014, 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 \$19 in 2014 (2013 - \$24). The Company estimates that an increase (decrease) in the commodity prices by 10% in 2014 with all other variables held constant would have resulted in an increase (decrease) in net loss of approximately \$2,000.

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.

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

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.

	MEXICO		CANADA		TOTAL	
	Dec 31, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013	Dec 31, 2014	Dec 31, 2013
	\$	\$	\$	\$	\$	\$
Property, plant and equipment	18,384	21,160	-	-	18,384	21,160
Capital expenditures	(3,340)	(4,125)	-	-	(3,340)	(4,125)
Mineral rights	2,960	3,435	3,015	19,292	5,975	22,727
Total assets	38,655	41,010	5,156	24,067	43,811	65,077

	2014	2013
	\$	\$
MEXICO		
Revenue	30,767	33,332
Cost of sales	(28,385)	(24,602)
Exploration	(2,228)	(5,134)
Other expenses	(618)	(271)
Net finance costs	(89)	(73)
Income tax	990	(1,424)
Net income (loss)	437	1,828
CANADA		
General and administrative expenses	(4,280)	(5,831)
Exploration	159	(1,584)
Other expenses	(145)	546
Impairment of mineral rights	(15,463)	-
Income tax	-	-
Net income (loss)	(19,729)	(6,869)
Net income (loss)	(19,292)	(5,041)

Excellon Resources Inc.

Notes to the Consolidated Financial Statements

December 31, 2014 and 2013

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

18. REVENUES

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

During the beginning of the year, the Company recognized positive adjustment to revenues of \$893, primarily related to the reversal of the mark to market taken at the end of 2013 as receivables were ultimately settled at higher values in 2014 (2013 – negative adjustment of \$1,373).

As at December 31, 2014, provisionally priced sales totalled \$3,256 which settled at final prices during the first quarter of 2015. A 10% increase or decrease in the price of silver, lead and zinc will result in a corresponding increase or decrease in revenues of \$326 during the first quarter of 2015.