



## **Excellon Resources Inc.**

Condensed Interim Consolidated Financial Statements

September 30, 2014

in thousands of U.S. dollars

(unaudited)

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

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

October 30, 2014

# Excellon Resources Inc.

## Condensed Interim Consolidated Statements of Financial Position

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

		September 30, 2014	December 31, 2013
	Notes	\$	\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		5,019	2,591
Marketable securities	3	2,558	2,607
Trade receivables		773	1,849
Income taxes receivable		2,070	2,689
Inventories	4	2,394	2,916
Other current assets		1,714	1,288
		14,528	13,940
<b>Non-current assets</b>			
Property, plant and equipment	5	19,705	21,160
Mineral rights	6	6,095	22,727
Deferred income tax assets	11	6,706	7,250
<b>Total assets</b>		<b>47,034</b>	<b>65,077</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade payables		4,202	3,643
<b>Non-current liabilities</b>			
Provisions	7	2,016	1,783
<b>Total liabilities</b>		<b>6,218</b>	<b>5,426</b>
<b>Equity</b>			
Share capital	8	77,335	77,434
Contributed surplus		11,113	10,676
Accumulated other comprehensive income		(4,422)	(1,955)
Deficit		(43,210)	(26,504)
<b>Total equity</b>		<b>40,816</b>	<b>59,651</b>
<b>Total liabilities and equity</b>		<b>47,034</b>	<b>65,077</b>

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

Approved by the Board

Director

Director

"Timothy J. Ryan"

"Alan R. McFarland"

# Excellon Resources Inc.

## Condensed Interim Consolidated Statements of Income (loss) and Comprehensive Income (loss)

For the three and nine months ended September 30, 2014 and 2013

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

	Notes	Three months ended		Nine months ended	
		Sept 30, 2014 \$	Sept 30, 2013 \$	Sept 30, 2014 \$	Sept 30, 2013 \$
Revenues	13	7,205	11,645	26,533	25,887
Production Costs		(6,405)	(4,458)	(18,824)	(14,705)
Depletion and amortization		(942)	(931)	(2,982)	(2,650)
Cost of Sales	9a	(7,347)	(5,389)	(21,806)	(17,355)
<b>Gross profit (loss)</b>		(142)	6,256	4,727	8,532
Administrative expenses		(827)	(771)	(2,539)	(3,106)
Share based payments	8	(126)	(210)	(595)	(1,086)
Depletion and amortization		(60)	(72)	(206)	(191)
General and administrative expenses	9b	(1,013)	(1,053)	(3,340)	(4,383)
Exploration		(1,282)	(299)	(1,800)	(6,506)
Other income (expense)	9c	71	(596)	290	(254)
Impairment of mineral rights	6	(15,463)	-	(15,463)	-
Finance costs		(22)	(18)	(66)	(56)
<b>Income (loss) before income tax</b>		(17,851)	4,290	(15,652)	(2,667)
Income tax recovery (expense)	11	(19)	(1,288)	(1,054)	33
<b>Net income (loss)</b>		(17,870)	3,002	(16,706)	(2,634)
<b>Other comprehensive income (loss)</b>					
Foreign currency translation differences		(2,408)	1,189	(2,467)	(1,903)
<b>Total other comprehensive income (loss)</b>		(2,408)	1,189	(2,467)	(1,903)
<b>Total comprehensive income (loss)</b>		(20,278)	4,191	(19,173)	(4,537)
<b>Earnings (loss) per share</b>					
Basic		\$ (0.33)	\$ 0.05	\$ (0.30)	\$ (0.05)
Diluted		\$ (0.32)	\$ 0.05	\$ (0.30)	\$ (0.05)
<b>Weighted average number of shares</b>					
Basic		54,940,312	55,096,197	54,966,061	55,041,090
Diluted		55,028,050	55,153,033	55,042,026	55,132,104

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

## Excellon Resources Inc.

### Condensed Interim Consolidated Statements of Changes in Equity For the three and nine months ended September 30, 2014 and 2013 (unaudited) (in thousands of U.S. dollars)

	Share capital \$	Contributed surplus \$	Accumulated other com- prehensive income (loss) \$	Deficit \$	Total equity \$
<b>Balance - January 1, 2013</b>	77,453	9,329	1,810	(21,463)	67,129
Net income (loss) for the period	-	-	-	(2,634)	(2,634)
Total other comprehensive income (loss)	-	-	(1,903)	-	(1,903)
Total comprehensive income (loss)	-	-	(1,903)	(2,634)	(4,537)
Employee share options:					
Value of services recognized	32	1,054	-	-	1,086
Proceeds on issuing shares	46	-	-	-	46
Share payment for mineral rights	199	-	-	-	199
Repurchased shares under normal course issuer bid	(164)	(54)	-	-	(218)
<b>Balance - September 30, 2013</b>	77,566	10,329	(93)	(24,097)	63,705
<b>Balance - January 1, 2014</b>	77,434	10,676	(1,955)	(26,504)	59,651
Net income (loss) for the period	-	-	-	(16,706)	(16,706)
Total other comprehensive income (loss)	-	-	(2,467)	-	(2,467)
Total comprehensive income (loss)	-	-	(2,467)	(16,706)	(19,173)
Employee share options:					
Value of services recognized	2	427	-	-	429
Proceeds on issuing shares	3	-	-	-	3
Repurchased shares under normal course issuer bid	(104)	10	-	-	(94)
<b>Balance - September 30, 2014</b>	77,335	11,113	(4,422)	(43,210)	40,816

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

# Excellon Resources Inc.

## Condensed Interim Consolidated Statements of Cash Flow

For the three and nine months ended September 30, 2014 and 2013

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

	Three months ended		Nine months ended	
	Sept 30, 2014	Sept 30, 2013	Sept 30, 2014	Sept 30, 2013
	\$	\$	\$	\$
<b>Cash flow provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	(17,870)	3,002	(16,706)	(2,634)
Adjustments for:				
Depletion and amortization	1,002	1,003	3,188	2,841
Deferred income tax	18	842	343	(293)
Share-based compensation	126	210	595	1,086
Post-employment benefits	21	18	62	55
Rehabilitation provision - accretion	22	19	65	56
Unrealized loss (gain) on marketable securities	403	(355)	49	1,152
Unrealized loss (gain) on foreign intercompany loans	(262)	27	(378)	(1,353)
Impairment of mineral rights	15,463	-	15,463	-
Operating cash flows before changes in working capital	(1,077)	4,766	2,681	910
Changes in items of working capital:				
Trade receivables	1,233	(2,222)	1,076	1,544
Income taxes receivable	153	364	619	(92)
Inventories	401	(907)	522	(474)
Other current assets	(199)	204	(426)	427
Trade payables	240	233	559	2,544
<b>Net cash provided by operating activities</b>	<b>751</b>	<b>2,438</b>	<b>5,031</b>	<b>4,859</b>
<b>Investing activities</b>				
Purchase of property, plant and equipment	(1,048)	(764)	(1,960)	(3,534)
Purchase of mineral rights	-	-	-	(18)
<b>Net cash used in investing activities</b>	<b>(1,048)</b>	<b>(764)</b>	<b>(1,960)</b>	<b>(3,552)</b>
<b>Financing activities</b>				
Proceeds on issuance of shares	-	-	3	46
Repurchased shares under normal course issuer bid	(47)	(14)	(94)	(218)
<b>Net cash used in financing activities</b>	<b>(47)</b>	<b>(14)</b>	<b>(91)</b>	<b>(172)</b>
<b>Effect of exchange rate changes on cash and cash equivalent:</b>	<b>(572)</b>	<b>643</b>	<b>(552)</b>	<b>308</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(916)</b>	<b>2,303</b>	<b>2,428</b>	<b>1,443</b>
<b>Cash and cash equivalents - Beginning of the period</b>	<b>5,935</b>	<b>509</b>	<b>2,591</b>	<b>1,369</b>
<b>Cash and cash equivalents - End of the period</b>	<b>5,019</b>	<b>2,812</b>	<b>5,019</b>	<b>2,812</b>
Interest	-	-	-	-
Cash paid for income tax	79	26	150	432

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

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2014 and 2013 (Unaudited) (in thousands of U.S. dollars, except share data)

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### 1. GENERAL INFORMATION

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

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

### 2. BASIS OF PRESENTATION

#### *a. Statement of compliance*

These unaudited condensed interim consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the Chartered Professional Accountants of Canada including IAS 34 Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013.

The accounting policies and the application adopted are consistent with those disclosed in Note 3 to the Company’s consolidated financial statements for the year ended December 31, 2013 except as described below.

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014.

*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. The Company does not expect the amendments to have any material effect on its consolidated financial statements.

*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 adoption of IFRIC 21 did not affect the Company’s financial results or disclosures and the Company has determined that no changes were required to existing accounting treatment of levies.

Areas of critical accounting estimates and judgments that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements are disclosed in Note 4 of the Company’s consolidated financial statements as at and for the year ended December 31, 2013.

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

These condensed interim consolidated financial statements were approved by the Board of Directors for issue on October 30, 2014.

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2014 and 2013 (Unaudited) (in thousands of U.S. dollars, except share data)

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### 3. MARKETABLE SECURITIES

The Company invested \$5,000 in the Sprott Physical Silver Trust to hold units representing an underlying investment in 134,732 ounces of silver. These securities have been classified as a "held for trading financial instrument" during the period.

During the three-month period ended September 30, 2014, an unrealized loss of \$403 was recorded in income in recognition of the decrease in value as at September 30, 2014 (three-month period ended September 30, 2013 - unrealized gain of \$355).

During the nine-month period ended September 30, 2014, an unrealized loss of \$49 was recorded in income in recognition of the decrease in value as at September 30, 2014 (nine-month period ended September 30, 2013 - unrealized loss of \$1,152).

### 4. INVENTORIES

	September 30, 2014 \$	December 31, 2013 \$
Ore	373	187
Concentrate	3	1,049
Production spares	2,018	1,680
	2,394	2,916

# Excellon Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and nine months ended September 30, 2014 and 2013  
(Unaudited) (in thousands of U.S. dollars, except share data)

## 5. 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
<b>Year ended December 31, 2013</b>					
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
<b>Period ended September 30, 2014</b>					
Opening net book value	11,104	6,379	3,647	30	21,160
Additions	928	867	21	144	1,960
Amortization	(1,189)	(1,001)	(645)	-	(2,835)
Exchange differences	(313)	(176)	(87)	(4)	(580)
Closing net book value	10,530	6,069	2,936	170	19,705
At September 30, 2014					
Cost	25,341	12,550	7,630	170	45,691
Accumulated amortization	(14,811)	(6,481)	(4,694)	-	(25,986)
	10,530	6,069	2,936	170	19,705



# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2014 and 2013 (Unaudited) (in thousands of U.S. dollars, except share data)

### 6. MINERAL RIGHTS

	Platosa (Mexico) \$	Beschefer (Canada) \$	DeSantis (Canada) \$	Total \$
<b>At January 1, 2013</b>				
Cost	4,927	8,730	11,646	25,303
Accumulated amortization	(898)	-	-	(898)
	4,029	8,730	11,646	24,405
<b>Year ended December 31, 2013</b>				
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
<b>At December 31, 2013</b>				
Cost	4,755	8,176	11,116	24,047
Accumulated amortization	(1,320)	-	-	(1,320)
	3,435	8,176	11,116	22,727
<b>Period ended September 30, 2014</b>				
Opening net book value	3,435	8,176	11,116	22,727
Additions	-	-	-	-
Amortization	(353)	-	-	(353)
Impairments (1)	-	(6,084)	(9,379)	(15,463)
Exchange differences	(125)	(299)	(392)	(816)
Closing net book value	2,957	1,793	1,345	6,095
<b>At September 30, 2014</b>				
Cost	4,579	1,793	1,345	7,717
Accumulated amortization	(1,622)	-	-	(1,622)
	2,957	1,793	1,345	6,095

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

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2014 and 2013 (Unaudited) (in thousands of U.S. dollars, except share data)

### 7. PROVISIONS

	Post-retirement benefits (1) \$	Rehabilitation provision \$	DSU and RSU \$	Total \$
<b>Year ended December 31, 2013</b>				
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
<b>Period ended September 30, 2014</b>				
Opening balance	323	1,276	184	1,783
Change in estimate	62	-	-	62
Accretion for the year	-	65	-	65
New liabilities	-	-	119	119
Variation of fair value	-	-	39	39
Exchange differences	(11)	(38)	(3)	(52)
Closing Balance	374	1,303	339	2,016

- (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, 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 six years.

# Excellon Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and nine months ended September 30, 2014 and 2013  
(Unaudited) (in thousands of U.S. dollars, except share data)

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## 8. SHARE CAPITAL

	Number of shares (000's)	\$
<b>Year ended December 31, 2013</b>		
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
<b>Period ended September 30, 2014</b>		
Opening balance	54,989	77,434
Shares issued on exercise of stock options	3	5
Shares purchased under normal course issuer bid	(78)	(104)
Balance at September 30, 2014	54,914	77,335

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

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

## Excellon Resources Inc.

### Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2014 and 2013 (Unaudited) (in thousands of U.S. dollars, except share data)

#### *Disclosure of share option program*

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

	<b>Weighted Average Exercise Price (CAD)</b>	<b>Options</b>
Outstanding at January 1, 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	\$ 1.32	50,000
Exercised	\$ 1.14	(2,500)
Expired	\$ -	-
Forfeited	\$ -	-
Outstanding at September 30, 2014	\$ 2.68	3,192,000
Exercisable at September 30, 2014	\$ 3.07	2,391,992

As at September 30, 2014, the following stock options were outstanding and exercisable:

<b>CAD</b>	<b>Stock Options Outstanding</b>	<b>Weighted Average Remaining Contractual Life (years)</b>	<b>Stock Options Exercisable</b>	<b>Weighted Average Exercise Price (CAD)</b>
\$1.14 to \$1.49	830,000	4.23	281,657	\$ 1.16
\$1.50 to \$1.99	130,000	3.67	86,667	\$ 1.73
\$2.00 to \$5.21	2,232,000	1.89	2,023,668	\$ 3.39
	3,192,000	2.57	2,391,992	\$ 3.07

#### *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. During the period, there were no options granted to directors, officers and employees.

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2014 and 2013 (Unaudited) (in thousands of U.S. dollars, except share data)

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The inputs used in the measurement of the fair values at grant date of the share option program were the following:

	<b>Nine months ended</b>	
	<b>September 30, 2014</b>	<b>2013</b>
Fair value at grant date	\$ 0.81	\$ 1.19
Share price at grant date	\$ 1.32	\$ 1.75
Exercise price	\$ 1.32	\$ 1.75
Risk free interest rate	1.47%	1.42%
Expected life of options in years	5.00	5.00
Expected volatility	74.68%	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. During the nine month period, the Company recorded a stock compensation expense of \$313 (nine month period ended September 30, 2014 - \$1,086).

### DEFERRED SHARE UNITS ("DSU")

During 2013, the Company implemented a DSU plan for directors of the Corporation, which was subsequently approved by the Company's shareholders on April 29, 2014. Under the 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.

During the nine month period, the Company granted 103,762 DSUs with a market value of CAD\$127 at the date of grant to non-executive directors as compensation in lieu of cash director fees. During the nine month period, there were no DSU settlements. Total share based compensation expensed in the nine month period related to vested DSUs was \$99. As at September 30, 2014, the Company has 276,349 outstanding DSUs. The fair value of the DSUs are classified as a liability and disclosed in note 7.

### RESTRICTED SHARE UNITS ("RSU")

During 2013, the Company implemented a RSU plan for officers and employees of the Corporation, which was subsequently 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 plan has been amended by the Board to provide for settlement of RSUs from treasury which was approved by the Company's shareholders at the annual meeting held on April 29, 2014.

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2014 and 2013 (Unaudited) (in thousands of U.S. dollars, except share data)

During the nine month period, the Company granted 15,000 RSUs with a market value of CAD\$22 at the date of grant to officers and employees. During the nine month period there were no RSU settlements. Total share based compensation expensed in the nine month period related to vested RSUs was \$68. As at September 30, 2014, the Company has 293,507 outstanding RSUs. The fair value of the RSUs are classified as a liability and disclosed in note 7.

### 9. EXPENSE BY NATURE

(a) Cost of sales comprises the following:

	Three months ended		Nine months ended	
	Sept 30, 2014	Sept 30, 2013	Sept 30, 2014	Sept 30, 2013
	\$	\$	\$	\$
Direct mining and milling costs (1)	5,979	5,431	17,967	15,267
Changes in inventories	426	(973)	857	(562)
Depletion, depreciation and amortization	942	931	2,982	2,650
<b>Cost of sales</b>	<b>7,347</b>	<b>5,389</b>	<b>21,806</b>	<b>17,355</b>

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

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

	Three months ended		Nine months ended	
	Sept 30, 2014	Sept 30, 2013	Sept 30, 2014	Sept 30, 2013
	\$	\$	\$	\$
Office and overhead costs	454	454	1,339	1,849
Salaries and wages	373	317	1,200	1,257
Share based compensation	126	210	595	1,086
Depletion and amortization	60	72	206	191
<b>General and administrative expenses</b>	<b>1,013</b>	<b>1,053</b>	<b>3,340</b>	<b>4,383</b>

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

	Three months ended		Nine months ended	
	Sept 30, 2014	Sept 30, 2013	Sept 30, 2014	Sept 30, 2013
	\$	\$	\$	\$
Unrealized loss (gain) on marketable securities	403	(355)	49	1,152
Foreign exchange loss (gain)	(474)	951	(339)	(898)
<b>Other expense (income)</b>	<b>(71)</b>	<b>596</b>	<b>(290)</b>	<b>254</b>

# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2014 and 2013 (Unaudited) (in thousands of U.S. dollars, except share data)

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### 10. RELATED PARTIES

The corporate secretary of the Company is a partner in a firm that provides legal services to the Company. During the nine months ended September 30, 2014, the Company incurred legal services of \$38 (nine months ended September 30, 2013 – \$130) with an outstanding payable balance of \$7 at September 30, 2014 (September 30, 2013 – \$28).

### 11. INCOME TAX

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimate average annual rate used for the year ended December 31, 2013 was 26.5% and the nine months ended September 30, 2014 was 26.5%.

In 2013, the Mexican tax authority (Servicio de Administración Tributaria – "SAT") in the state of Zacatecas completed an income tax audit of the 2008 and 2009 years in respect of one of the Company's Mexican subsidiaries. As a result of this audit, on February 24, 2014 and March 13, 2014 the Company received notice of reassessments from SAT for 2009 and 2008 respectively, denying deductions in the amount of 115.2 million pesos (USD\$8.8 million) and 72.9 million pesos (USD\$5.6 million) 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 (USD\$14.4 million), which, consequently, would result in a reduction in the deferred tax asset balance of USD\$4.3 million and a corresponding increase in deferred income tax expense. In addition, the Company would be subject to penalties and interest, an amount that has not been included in this estimate.

The Company is of the view, with support from its tax advisors, that there is a strong case to support the Company's position that such deductions are permissible, particularly because the SAT has made adjustments to foreign exchange losses but has not made offsetting adjustments to foreign exchange gains. The Company has appealed the 2008 and 2009 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, based on the tax advice from its tax advisors, that it is more likely than not that its position will be sustained and accordingly, no amounts related to this issue have been recorded in the condensed interim consolidated financial statements as at September 30, 2014.

# Excellon Resources Inc.

Notes to the Condensed Interim Consolidated Financial Statements  
For the three and nine months ended September 30, 2014 and 2013  
(Unaudited) (in thousands of U.S. dollars, except share data)

## 12. SEGMENT REPORTING

	MEXICO		CANADA		TOTAL	
	Sept 30, 2014 \$	Dec 31, 2013 \$	Sept 30, 2014 \$	Dec 31, 2013 \$	Sept 30, 2014 \$	Dec 31, 2013 \$
Property, plant and equipment	19,705	21,160	-	-	19,705	21,160
Capital expenditures	(1,960)	(4,125)	-	-	(1,960)	(4,125)
Mineral rights	2,957	3,435	3,138	19,292	6,095	22,727
Total assets	39,780	41,010	7,254	24,067	47,034	65,077

	Three months ended		Nine months ended	
	Sept 30, 2014 \$	Sept 30, 2013 \$	Sept 30, 2014 \$	Sept 30, 2013 \$
<b>MEXICO</b>				
Revenue	7,205	11,645	26,533	25,887
Cost of sales	(7,347)	(5,389)	(21,806)	(17,355)
Exploration	(1,188)	(556)	(1,771)	(5,036)
Other expenses	174	(222)	140	(236)
Net finance costs	(22)	(18)	(66)	(56)
Income tax	(19)	(1,288)	(1,054)	(299)
Net income (loss)	(1,197)	4,172	1,976	2,905
<b>CANADA</b>				
General and administrative expenses	(1,013)	(1,053)	(3,340)	(4,383)
Exploration	(94)	257	(29)	(1,470)
Other expenses	(103)	(374)	150	(18)
Impairment of mineral rights	(15,463)	-	(15,463)	-
Income tax	-	-	-	332
Net income (loss)	(16,673)	(1,170)	(18,682)	(5,539)
<b>Net income (loss)</b>	<b>(17,870)</b>	<b>3,002</b>	<b>(16,706)</b>	<b>(2,634)</b>



# Excellon Resources Inc.

## Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2014 and 2013 (Unaudited) (in thousands of U.S. dollars, except share data)

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### 13. REVENUES

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

At the beginning of the year, the Company entered into a new sales agreement with its sole customer Trafigura, with the most notable amendment being in the settlement terms of one or two months after delivery compared to the previous contract terms of one or four months after delivery.

During the three-month period ended September 30, 2014, the Company recognized a positive adjustment to revenues of \$19 relating to sales made prior to July 1, 2014 which settled during the quarter at higher metal price (three-month period ended September 30, 2013 – negative adjustment of \$121).

During the nine-month period ended September 30, 2014, the Company recognized a positive adjustment to revenues of \$893, primarily related to the reversal of the mark to market taken at year end as receivables were ultimately settled at higher values (nine-month period ended September 30, 2014 – negative adjustment of \$1,373).

As at September 30, 2014, unsettled provisionally priced sales totalled \$4,685. A 10% increase or decrease in the price of silver will result in a corresponding increase or decrease in revenues of \$286 during the fourth quarter of 2014.