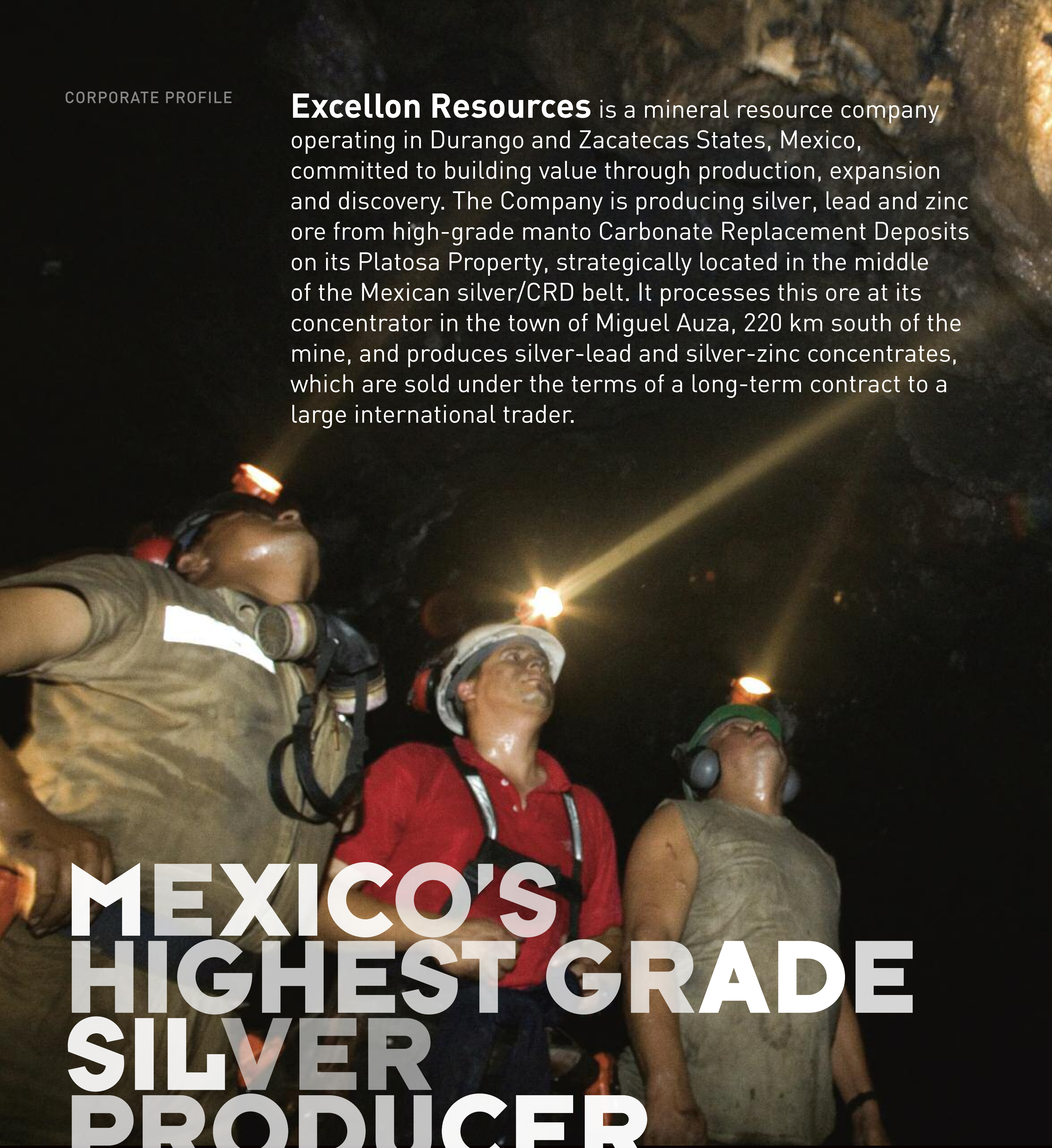
MEXICO'S HIGHEST GRADE SILVER PRODUCER

EXCELLON RESOURCES INC. ANNUAL REPORT 2010

EXCELLON RESOURCES INC.



CORPORATE PROFILE

Excellon Resources is a mineral resource company operating in Durango and Zacatecas States, Mexico, committed to building value through production, expansion and discovery. The Company is producing silver, lead and zinc ore from high-grade manto Carbonate Replacement Deposits on its Platosa Property, strategically located in the middle of the Mexican silver/CRD belt. It processes this ore at its concentrator in the town of Miguel Auza, 220 km south of the mine, and produces silver-lead and silver-zinc concentrates, which are sold under the terms of a long-term contract to a large international trader.

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Excellon Resources Inc. [the "Company", or "Excellon"] has prepared this Management's Discussion and Analysis of Financial Results ["MD&A"] for the year ended December 31, 2010 in accordance with the requirements of National Instrument 51-102 ["NI 51-102"]. In December 2009 the Company changed its year end to December 31 from July 31. The year end change was desirable to make the Company's financial statements directly comparable to those of other mining companies on a quarterly basis and to have a consistent year end with its subsidiaries. This change in year end required the Company to have a transition year with a five month year ending December 31, 2009 with comparatives for the twelve month year ending July 31, 2009. This MD&A for the year ended December 31, 2010 and containing information as at March 22, 2011 provides information on the operations of the Company for the periods ended December 31, 2010, December 31, 2009 and July 31, 2009 and subsequent to the period end, and should be read in conjunction with the audited consolidated financial statements for the periods ended December 31, 2010 and 2009, filed on SEDAR.

DESCRIPTION OF BUSINESS

Excellon is exploring, developing and mining the high-grade silver-zinc-lead mineralization on its approximately 58,054-hectare [143,455-acre] Platosa Property ["Platosa"], including an optioned portion, in northeastern Durango State, Mexico. The style of mineralization at Platosa resembles that of several of the world-class carbonate replacement deposits ["CRD"] of Mexico.

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

On December 13, 2009 the Company reported that its Indicated Mineral Resource at Platosa had increased to 579,000 tonnes grading 909 g/t (27 oz/T) Ag, 9.09% Pb, and 10.51% Zn (as at October 31 2009), up from 396,000 tonnes grading 986 g/t (29 oz/T) Ag, 9.00% lead, and 10.10% zinc (as at February 3, 2008). The Inferred Mineral Resource increased from 72,700 to 160,000 tonnes at a somewhat lower grade than that of 2008. All the pertinent figures are shown in the table below. Since October 31, 2009 the Company has discovered additional high-grade massive sulphide mineralization, including that hosted by the Pierna Manto, however, has not prepared a new Mineral Resource estimate.

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

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

Notes:

1. *CIM definitions were followed for the classification of Mineral Resources.*
2. *Mineral Resources are estimated at an incremental NSR cut-off value of U.S. $86 per tonne.*
3. *NSR metal price assumptions: Silver U.S. $16.00/oz, Lead U.S. $0.80/lb, Zinc U.S. $1.00/lb.*
4. *Estimate is of Mineral Resources only and, because these do not constitute Mineral Reserves, they do not have any demonstrated economic viability.*
5. *National Instrument 43-101 compliant Mineral Resource estimate prepared by Scott Wilson Roscoe Postle Associates Inc., independent geological and mining consultants of Toronto, Ontario. Prepared as at October 31, 2009. See the technical report dated January 15, 2010 filed at www.sedar.com.*

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

The Company's previously announced plan to construct its own mill at its Platosa site was suspended in December 2008 and the Miguel Auza mill is being used to process ore from the Platosa mine. The Company is producing ore at the rate of 150–200 tonnes per day (approximately 4,000–6,000 tonnes per month). The Miguel Auza mill can process up to approximately 450 tonnes per day of Platosa ore. The Company expects to complete the construction of the Platosa mill at some point in the future. The timing of this is not currently determinable but would be in response to a variety of factors including production changes and/or corporate development activities. Nearly all the equipment required to complete the mill is on site at Platosa and the construction and operation of the mill is fully permitted. To date $4.2 million has been spent on mill equipment, construction and engineering design.

MINE OPERATIONS

On August 18, 2010, the Platosa mine suffered a sudden water inflow and fourteen days of production were lost. Following re-establishment of the stockpile at Miguel Auza, milling of the ore recommenced on September 11, 2010.

The water inflows occur when mining encounters water-filled faults and the Company began a more intensive grouting program in the late summer of 2010. An underground diamond drill remains dedicated to drilling 25- to 50-metre long sub-horizontal grout cover holes in advance of certain production and development headings to seal off these faults. The Company is acquiring additional pumps and has upgraded electrical infrastructure as it continues to enhance the Platosa water management program.

The Company's objective remains to return to previous production levels and grades as early as possible in 2011.

Actual and planned production for the fourth quarter of 2010 and the first quarter of 2011 is as follows:

Period	Tonnes	Ag (g/t)	Pb (%)	Zn (%)
Fourth quarter ended December 30, 2011	12,153	725	5.12	5.01
First quarter 2011 (plan)	11,200	600	5.20	5.20

The following are the Platosa mine production statistics for the periods indicated:

	12 months ended December 31, 2010	Five months ended December 31, 2009	12 months ended July 31, 2009
Tonnes of ore processed	64,462	28,034	43,922
Ore grades:			
Silver (g/t)	814	889	1,114
Lead (%)	6.37	7.21	8.90
Zinc (%)	7.68	7.49	8.86
Recoveries:			
Silver (%)	85.4	89.0	88.1
Lead (%)	68.2	77.3	71.4
Zinc (%)	74.5	66.5	71.3
Production:			
Silver – (oz)	1,317,605	633,478	1,475,833
Lead – (lb)	5,804,014	3,278,572	7,585,852
Zinc – (lb)	8,074,321	2,853,542	8,098,377
Sales:			
Silver – (oz)	1,302,321	686,072	1,571,668
Lead – (lb)	5,726,157	3,450,520	8,655,152
Zinc – (lb)	8,009,077	3,613,929	7,999,072
Realized prizes:			
Silver – ($US/oz)	19.78	17.66	12.66
Lead – ($US/lb)	0.95	1.06	0.64
Zinc – ($US/lb)	0.94	1.03	0.64

CASH COST PER OUNCE OF SILVER PRODUCED

The Company's cash cost for the year ended December 31, 2010 was US$7.18 per oz (five months ended December 31, 2009 – US$4.50/oz, year ended July 31, 2009 – US$5.26/oz). The calculation of cash cost per payable ounce of silver produced is significantly influenced by by-product metal prices, which may fluctuate going forward. During the third quarter of 2010, the Company changed the methodology of calculating cash cost to be more consistent with industry practice. The comparative figures have been prepared on a consistent basis.

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

Reconciliation of Cash Cost per Ounce of Silver Produced, Net of By-Product Credits:

	12 months ended December 31, 2010 $	Five months ended December 31, 2009 $	12 months ended July 31, 2009 $
Cost of production	16,307,506	8,222,472	12,063,246
Add: Third party smelting and refining	5,022,485	2,627,941	5,155,817
Inventory changes	286,496	(473,885)	521,424
Deduct: Royalties	(401,010)	(362,233)	(634,863)
Deduct: By-product credits[1]	(11,628,012)	(6,968,738)	(7,988,536)
Cash cost	9,587,465	3,045,557	9,117,088
Ounces of silver produced	1,317,605	633,478	1,475,833
Cash cost per ounce of silver produced, in CAD $/oz	7.28	4.81	6.18
Cash cost per ounce of silver produced in US $/oz	7.18	4.50	5.26

(1) By product credits comprise revenues from sales of zinc and lead.

Exploration

Platosa Property

The Platosa mine exploits a series of typical, although very high-grade, distal CRD silver, lead, zinc manto deposits located strategically within the prolific Mexican CRD Belt. It is the Company's belief and diamond drilling results to late March 2011 continued to confirm, that the Platosa Property holds considerable potential for the discovery of additional high-grade manto mineralization and for the discovery of large-tonnage, though lower grade, proximal CRD mineralization. CRDs are epigenetic, intrusion-related, high-temperature sulphide-dominant, lead-zinc-silver-(copper-gold)-rich deposits that commonly occur in clusters associated with major regional geologic features. The Mexican CRD Belt is perhaps the world's best developed CRD cluster and Platosa lies in the centre of the northwest-southeast trending axis of the largest deposits of the belt.

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

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

CRD orebodies take the form of lenses or elongate to elongated-tabular bodies referred to as mantos or chimneys depending on whether they are horizontal or steeply inclined. A spectrum of CRD orebodies exists, ranging from distal manto and medial chimney massive sulphide bodies to proximal sulphide-rich skarns associated with unmineralized or porphyry-type intrusive bodies. Transitions of orebody morphology and mineralogy, and alteration zoning can be used in exploration to trace mantos into chimneys, sulphides into skarn, or skarn into stock contact deposits.

During the latter portion of 2010 and up to the time of the present report, exploration efforts have focussed on an area within roughly three kilometres of the Platosa Mine.

In this area there are three primary objectives:

- To further add to the known distal-style, high-grade CRD Mineral Resources and to discover new mantos by drilling the geological, structural, geochemical, biogeochemical and geophysical targets developed by 2010 and previous surveys. This follows on the success in adding mineralization to the 6A/6B Manto and the discovery of the Pierna Manto during 2010;
- To pursue the potential for discovery of larger-volume medial and proximal CRD mineralization. Geological evidence of this potential has been found in several drill holes completed since 2008 including hole EX10-LP763 drilled this year in the Rincon del Caido area approximately 1.5 km NNW of the Guadalupe Manto. The early 2011 exploration program is focussed on the Rincon del Caido – 6A/6B Corridor; and
- Continue to pursue the development of additional targeting tools. At present this work is focussed on following up the results of the ZTEM airborne geophysical survey flown in the fall of 2010 and the three-dimensional Induced Polarization (3D IP) survey carried out earlier in the year.

Diamond drilling continued to encounter success near existing mine infrastructure and during the final quarter of the year the Company announced the discovery of the high-grade Pierna Manto situated between the Rodilla and NE-1 mantos. High-grade massive sulphides were intersected in seven holes. Among these, hole LP875 intersected 6.10 metres (m) of massive sulphides grading 1,489 g/t (43 oz/T) Ag, 10.65% Pb, 21.63% Zn. Hole LP884 intersected 10.76 m of massive sulphides grading 651 g/t (19 oz/T) Ag, 7.86% Pb, 15.79% Zn. The seven intersections ranged from 0.55 to 10.76 m in estimated true thickness, averaging 5.70 m and the manto remains open to the north, northeast and northwest. In addition to those in Pierna significant massive sulphide assays were disclosed for eight holes in the 6A/6B Manto, the NE-1 Manto SE, the NE-1 Manto SW and the N-1 Manto Extension areas. The assay results relating to these 15 holes are included in the press releases dated November 4, 2010 and November 17, 2010 and January 13, 2011.

Late 2010 and early 2011 drilling has seen the testing of several 3D IP chargeability anomalies. These responses have been explained by either pyritized hornfels or pyritized black limestone, both of which underlie the productive dolomitized fragmental limestone unit at Platosa. These holes have also served as stratigraphic tests since they were located close to or within the Rincon del Caido – 6A/6B Corridor. Hole LP889 was completed at a depth of 942 m and intersected a significant widths of marble, anhydrite and lightly pyritized felsic intrusive, all promising signs in the search for large-scale proximal skarn-type CRD mineralization in the area.

In a press release dated November 2, 2010 the Company announced that in late October it entered into a binding Letter Agreement with Sundance Minerals Ltd., a private Canadian company, to acquire up to a 75% interest in its 17,000 hectare Pluton Property located to the west of and contiguous with portions of the Platosa Property. The property is an excellent fit with the strategic objectives of the Company. Sundance, which has considerable expertise in CRD exploration, will be the initial project operator in cooperation with Excellon's exploration team. Excellon can earn a 60% interest in the property by making an up-front cash payment of $50,000 (paid) and incurring $1,500,000 in exploration expenditures over three years. An additional 15% interest may be earned by completing a pre-feasibility study within another three years.

The Pluton Property covers the western portion of a large regional magnetic feature that is believed to reflect underlying intrusives favourable to the development of CRD systems. The Platosa Mine is located on the eastern side of the same regional feature and the past producing Ojuela Mine (6 million tonnes of high-grade Ag, Au, Pb, Zn production from a series of CRD chimneys and mantos) sits on the south-central side. The Pluton Property covers favourable geology with sulphide showings and other signs of proximity to a mineralizing source. Prior to entering into the agreement Sundance had carried out geological mapping, soil geochemical, gravity and NSAMT surveys over portions of the property and based on the results plus those of the Company's ZTEM survey the parties plan to begin an initial diamond drilling program in the late spring or early summer of 2011.

The exploration group continues to investigate and employ new geophysical targeting methods available to guide its drilling programs. In the fall of 2010 the results of the test 3D IP survey were received and interpretation indicates correlation between a particular level of chargeability and portions of the known manto massive sulphides at Platosa. A series of holes has been laid out for similar chargeability anomalies found elsewhere in the survey area, which measures roughly five kilometres from NW-SE and one kilometre from SW-NE and was centred roughly on the known mantos.

During October, 2010 the Company carried out 2,800 line kilometres of ZTEM airborne geophysical surveying over a large portion of the original Platosa property, almost all of the 17,000 ha concession acquired in April 2010 and a portion of the Pluton property discussed above. The Company received the initial final interpreted results of the survey in late February as disclosed in a press release dated February 28, 2011. The survey has outlined several previously undetected and untested structural zones or systems of interest. These target areas are being ground truthed and once drill tested they may lead to the discovery of a large-tonnage proximal carbonate replacement deposit (CRD) similar to others in the prolific CRD Belt of Mexico. The discovery of such a deposit, which the Company believes is present on the property, remains the principal goal of its exploration programs. In addition these structural systems may lead to the discovery of new high-grade Ag, Pb, Zn manto sulphides similar to those the Company has been exploiting at Platosa since mid 2005.

Miguel Auza Property

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

The large property has seen very little modern exploration other than on Calvario and its immediate surroundings, and the main thrust of the Company's 2009–2010 exploration program was an evaluation of the regional potential. In March 2010 the company announced that it had outlined six northwest-trending quartz veins varying in thickness from two to 10 m, with a strike length of up to 1,500 m. The "Madera Veins" are composed of multiple stages of quartz and calcite banding and the quartz shows the multi-stage brecciation and replacement textures typical of epithermal veins. The lack of significant silver grades in the outcrops explains why these veins historically saw only local shallow prospecting and why their potential importance was previously overlooked. A 12-hole drilling program was completed on the veins in June 2010. This drilling confirmed the presence of a large epithermal system with veins which persist to a depth of at least 440 m vertical. Significant amounts of pyrite and pyrrhotite were found in portions of the veins. The best intersection was 1.75 m (estimated true thickness) running 321 g/t (9.4 oz/T) Ag, 0.72% Pb, 0.20% Zn and reported in a press release dated May 25, 2010.

Subsequent exploration focused on regional mapping and reconnaissance, particularly in an area between the Madera and Calvario veins where historic drilling encountered several narrow intersections of over 1,000 g/t (29.1 oz/T) silver and no significant follow-up was carried out by previous operators. Several other areas of favourable geology and alteration were also investigated. This program was completed in October 2010 and despite the fact that there remain areas of exploration interest on the property the Company has decided that it will concentrate exploration efforts on the Platosa Property for the foreseeable future.

QUALIFIED PERSONS

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

Mr. Sullivan is an economic geologist with over 35 years of experience in the mineral industry. Prior to joining Excellon in 2007 he was a senior geologist at a Toronto-based international geological and mining engineering consulting firm where he evaluated properties and prepared NI 43-101 reports on gold and base metal projects in Canada and internationally. In addition he has held senior positions with two large Canadian mining companies where he directed major exploration programs, managed field offices, and evaluated projects in Canada, Europe, Africa and Latin America. Mr. Sullivan is not independent of Excellon as he is an officer.

RISK AND UNCERTAINTIES

The Company is exposed to many risks in conducting its business, including but not limited to: metal price risk since the Company derives its revenues from the sale of silver, lead and zinc; foreign exchange risk since the Company reports in Canadian dollars but operates in jurisdictions that use other currencies; the inherent risk of uncertainties in estimating mineral resources; political risk associated with operating in foreign jurisdictions, environmental risks and associated with labour relations.

Risk factors affecting the Company are described in the Annual Information Form on Sedar (www.sedar.com).

In addition, there is no assurance that the Company will have sufficient cash resources to meet its objectives since this is dependent on being able to maintain adequate production levels and to realize adequate revenues based on metal prices as well as being able to raise capital as required.

OVERALL PERFORMANCE

Silver prices in 2010 averaged US$20.16 on the LME while the Company realized a price of $19.78.

As mining progressed towards a series of major faults, water management underground became a bigger issue and this resulted in lower production. The Company spent a significant portion of its available cash on exploration in 2010 which resulted in the discovery of new manto mineralization and the generation of additional drilling targets.

The Company also spent approximately $4.3 million on new mine equipment and infrastructure including a mine office and warehouse.

During 2010, the decision was made to let the Miguel Auza mine flood to reduce care and maintenance costs and since there are no plans to explore the property in the near future. As a result, all costs capitalized to the property in an amount of $1.3 million were written off.

SELECTED ANNUAL INFORMATION

The following selected annual information has been prepared in Canadian dollars in accordance with Canadian generally accepted accounting principles:

	Year ended December 31, 2010 $	Five months ended December 31, 2009 $	Year ended July 31, 2009 $
Revenue	**30,425,392**	16,031,660	20,056,321
Net income (loss)	**(3,883,741)**	737,038	(4,900,830)
Loss per share – basic and diluted	**(0.02)**	0.00	(0.03)
Total assets	**38,200,092**	39,153,724	39,890,718
Total long-term financial liabilities	**1,476,659**	1,355,176	558,857
Dividends declared per share	**–**	–	–

Revenue fluctuations are a function of production levels and metal prices. The losses in the above periods are largely a function of the amount of spending on exploration. The decline in total assets in 2010 is largely due to the change in the foreign exchange accounting policy described under Results of Operations.

RESULTS OF OPERATIONS

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

Effective January 1, 2010, the Company's foreign subsidiaries were deemed to be operationally and financially self-sufficient, and accordingly, classified as self sustaining foreign operations. Prior to 2010 these subsidiaries were considered to be integrated foreign operations since they were financially and operationally dependent upon Excellon. The change was accounted for prospectively. As a result of this change, foreign exchange gains and losses on translation of foreign subsidiaries' financial statements flow through other comprehensive income rather than through the consolidated statements of operations. This should reduce earnings volatility due to foreign exchange fluctuations.

Financial statement highlights for the year ended December 31, 2010, the five-month period ended December 31, 2009 and the year ended July 31, 2009 are as follows:

	Year ended December 31, 2010 $	Five months ended December 31, 2009 $	Year ended July 31, 2009 $
Revenue	**30,425,392**	16,031,660	20,056,321
Cost of production (including amortization)	**18,957,616**	9,157,606	14,343,024
Income from mine operations	**11,467,776**	6,874,053	5,713,297
Expenses:			
Exploration expenditures	**9,010,297**	2,672,450	3,280,296
Write-down of mineral property	**1,303,880**	–	–
General and administration	**4,895,567**	1,769,384	4,815,872
Other	**1,689,089**	766,623	1,647,527
Income taxes (recovery)	**(1,547,316)**	928,558	870,432
Net income (loss) for the period	**(3,883,741)**	737,038	(4,900,830)

During the year ended December 31, 2010 the Company recorded a loss of $3.9 million compared to a loss of $4.9 million for the year ended July 31, 2009 (net income of $737,038 for the five month period ended December 31, 2009).

Income from mine operations for 2010 was $11.5 million compared to $6.9 million for the five month period ended December 31, 2009. This is significantly lower in 2010, compared to annualized 2009 results, due to lower metal sales (as a result of lower grades and recoveries), higher cash costs and higher total production costs. The most significant factor affecting the mine results in 2010 was the underground water problems which disrupted production and increased production costs. Plant throughput rates were similar in the two periods however lower grade ore was processed which negatively affected sales.

Income from mine operations in the year ended July 31, 2009 of 5.7 million was 10% lower than fiscal 2010. Prior to March 2009, the Company was selling ore. With the change to processing ore at Miguel Auza and to selling concentrates, mine profitability improved significantly.

Silver sales account for approximately 67% of total sales in 2010 (63% in the five month period ended December 31, 2009 and 68% in the year ended July 31, 2009).

Mine development and production are currently taking place in areas with large faults that are water-bearing. It is expected that production from the mine will increase once these faults are crossed. The current mine plan for 2011 includes production of 57,000 tonnes of ore.

The Platosa property is considered to have high exploration potential by the Company and in 2010, over $9 million (five months ended December 31, 2009 – $2.7 million, year ended July 31, 2009 – $3.3 million) was spent on exploration within two kilometres of the mine. The Company's accounting policy is to expense exploration costs so earnings will fluctuate depending on the level of exploration activity.

General and administrative costs represent administrative costs incurred in Canada. Management compensation is the largest component and is comparable to the previous periods presented above. The use of contract staff for projects such as the IFRS conversion has increased in 2010. Legal and audit costs are lower in 2010 partly offset by higher insurance premiums associated with increased coverage.

SUMMARY OF QUARTERLY RESULTS

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

	3 months ended	3 months ended	3 months ended	3 months ended
Period ended	2010-12-31	2010-09-30	2010-06-30	2010-03-31
Revenue	$ 5,331,314	$ 6,303,229	$ 8,407,580	$ 10,383,269
Net income (loss) before income taxes	$ (3,676,810)	$ (2,152,013)	$ (795,922)	$ 1,193,688
Net income (loss)	$ (2,764,424)	$ (2,132,610)	$ 464,197	$ 549,096
Earnings (loss) per share – basic	$ (0.01)	$ (0.01)	$ 0.00	$ 0.00
– diluted	$ (0.01)	$ (0.01)	$ 0.00	$ 0.00

	2 months ended				3 months ended
Quarter ended	2009-12-31	2009-10-31	2009-07-31	2009-04-30	2009-01-31
Revenue	$ 6,202,442	$ 9,829,218	$ 10,151,661	$ 5,296,294	$ 3,587,992
Net income (loss) before income taxes	$ (164,306)	$ 1,852,940	$ 2,502,000	$ 710,118	$ (988,231)
Net income (loss)	$ (230,095)	$ 967,133	$ 1,268,957	$ 621,288	$ (857,377)
Earnings (loss) per share – diluted	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ (0.01)
Earnings (loss) per share – diluted	$ 0.00	$ 0.00	$ 0.01	$ 0.00	$ (0.01)

Quarterly revenue fluctuations are a function of metal prices and the volume of ore mined as well as ore grades. The Company has a policy of expensing exploration costs which creates volatility in earnings. The net income figures for the fourth quarter of 2010 reflect a write-down of mineral property in an amount of $1.3 million. No write-downs were recorded in the prior quarters presented.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2010 the Company's cash and cash equivalents were $1,977,798 (December 31, 2009 – $4,692,698, July 31, 2009 – $7,204,051), and working capital was $6,359,355 (December 31, 2009 – $8,106,979, July 31, 2009 – $7,019,385). In order to provide more operating flexibility in the short-term, the Company is examining financing alternatives such as the use of capital leases and lines of credit. The only present source of funds available to the Company is cash flow generated by the Platosa mine. Current planned capital expenditures in the next six months total approximately $1.9 million to be used to increase water pumping capacity, improve electrical infrastructure and to purchase mining equipment.

CONTRACTUAL OBLIGATIONS

The Company has entered into agreements to lease surface rights, premises and equipment under operating lease agreements expiring at various dates to 2014 and thereafter. The future minimum annual lease payments are as follows:

	$
2011	1,313,994
2012	723,160
2013	594,318
2014	613,534
Thereafter	14,111,284
	17,356,290

Accounts payable excluding accrued liabilities are due within 90 days or less. The Company has several lease obligations expiring over the next three years in the amount of $960,667. In addition, annual payments of US $520,000 for a surface rights lease with Ejido La Sierrita are payable over the next 23 years.

In connection with the surface rights lease with Ejido La Sierrita, the Company has committed to, should the untreated water not be of quality appropriate for agricultural purposes, construct and install a water treatment plant for the water extracted from the mine. This commitment is conditional on the granting of permits required by the National Commission of Water of Mexico. At December 31, 2010 no permits have been granted.

OFF-BALANCE SHEET ARRANGEMENTS

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

RELATED PARTY TRANSACTIONS

The Corporate Secretary of the Company is a partner in a firm that provides legal services to the Company. During the year ended December 31, 2010, the Company paid an aggregate of $286,854 (five months ended December 31, 2009 – $258,463, year ended July 31, 2009 – $574,297) for legal services from the firm. These services were provided in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties.

COMMON SHARE DATA (AS AT MARCH 22, 2011)

Common shares outstanding	249,788,446
Stock options granted	12,844,272
Total	262,632,718

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 2 to the consolidated financial statements for the year ended December 31, 2010. The preparation of the Company's consolidated financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. The following is a list of the accounting policies that the Company believes are critical, due to the degree of uncertainty regarding the estimates or assumptions involved and the magnitude of the asset, liability, revenue or expense being reported:

- Carrying value of mineral properties and property, plant and equipment;
- Asset retirement obligations;
- Future income taxes; and
- Stock-based compensation

Carrying value of mineral properties and property, plant and equipment

The Company reviews and evaluates the carrying value of its mineral properties for impairment whenever events or circumstances indicate that the carrying amounts of these assets may not be recoverable. When the carrying amount exceeds the undiscounted cash flow, an impairment loss is measured and recorded. Future cash flows are based on estimated recoverable production from the Company's Indicated and Inferred resources. Assumptions underlying the cash flow estimate include, but are not limited to, forecasted prices for silver, lead and zinc, production levels, and operating, capital, exploration and reclamation costs. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Therefore, it is possible that changes in estimates with respect to the Company's mine plans could occur which may affect the expected recoverability.

The accumulated costs of mineral properties are amortized using the units of production basis using Indicated and Inferred mineral resources (as defined by National Instrument 43-101). Property, plant and equipment are recorded at cost and are amortized using the straight-line method.

Asset retirement obligations

Due to uncertainties relating to environmental remediation, the cost of future site restoration could differ from the amount recorded in the consolidated financial statements. The estimate of the liability associated with site restoration costs is subject to change based on expected inflation, changes to laws and regulations, changes in technology and other factors.

Future income taxes

The Company follows the liability method of accounting for future income taxes. Under this method, future tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Stock-based compensation

The Company has a stock-based compensation plan that is described in note 9(b) to the Company's December 31, 2010 consolidated financial statements. The Company records all stock-based compensation for stock options using the fair value method. The fair value of each stock option issued is estimated on the date of grant using the Black-Scholes option pricing model, with expected volatility based on historical volatility of the Company's share price. Historical data is used to estimate the term of the stock option and the risk free rate for expected term of the stock option is based on the Government of Canada yield curve in effect at the time of the grant.

ADOPTION OF NEW ACCOUNTING STANDARDS

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

FINANCIAL INSTRUMENTS

The Company's financial instruments as at December 31, 2010 consist of cash and cash equivalents, short-term investments, accounts receivable, income taxes receivable and accounts payable and accrued liabilities. The fair value of these instruments approximates their carrying value. There were no off-balance sheet financial instruments.

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

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

DISCLOSURE CONTROLS AND PROCEDURES

Management has designed disclosure controls and procedures ("DC&P") to provide a reasonable assurance that (i) material information relating to the Company is made known to them by others, particularly during the period in which the annual filings are being prepared and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management has designed internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

EVALUATION OF DC&P AND ICFR

The Company's Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of the Company's DC&P and ICFR at the financial year end and have concluded that the Company's DC&P and ICFR were effective at the financial year end based on that evaluation.

NO CHANGES IN ICFR IN FOURTH QUARTER

There were no changes in the Company's policies and procedures and other processes that comprise its ICFR during the period beginning on October 1, 2010 and ended on December 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Canadian publicly listed companies will be required to prepare financial statements in accordance with IFRS for interim and annual periods beginning on or after January 1, 2011. The Company's reporting under IFRS will commence in the first quarter of 2011.

The changeover to IFRS from Canadian GAAP is a significant undertaking, and as a result, the Company has established a dedicated IFRS changeover resource to lead this process. The audit committee of the Company is kept informed of management's decisions on accounting policy choices under IFRS, project status and IFRS developments. The project planning and design phases have been substantially completed and included a review of significant IFRS differences. Based on the work done so far, the Company does not expect that the conversion to IFRS will have a significant impact on its accounting processes and internal controls (including information technology systems). The Company will be updating its disclosure controls and procedures to ensure they are appropriate for reporting under IFRS. In addition, the Company does not expect the conversion to IFRS to have a significant impact on its risk management or other business activities.

During the fourth quarter of 2010, the Company continued to execute on the implementation phase of its changeover plan. During this period, specific project milestones achieved include: further progression in the identification and amendment of internal controls over financial reporting and business processes impacted by IFRS; further progression in determining and selecting accounting policies and progression in the preparation of draft mock-up of the consolidated financial statements and notes under IFRS.

TRANSITION TO IFRS

Subject to review by the Company's auditor the effect of the Company's transition to IFRS at January 1, 2010 is summarized in this note as follows:

1. Presentation differences
2. Transition elections
3. Reconciliation of equity as previously reported under Canadian GAAP to IFRS

The IFRS accounting differences, preliminary findings concerning accounting policies and the IFRS 1 elections set out below are subject to review by the Company's auditor and should be considered preliminary. Additionally, these findings are based on current IFRS that are subject to change. The Company's reporting under IFRS in 2011 will be based on the standards effective for that year. Accordingly, the Company continues to monitor standards development by the International Accounting Standards Board and the AcSB.

1. Presentation differences – Certain presentation differences between Canadian GAAP and IFRS have no impact on reported equity.

Mineral properties will be reclassified on the balance sheet at the date of transition. Tangible components of mineral properties will be reclassified to property, plant and equipment. The intangible component of mineral properties (acquisition costs) will be reclassified to intangible assets.

Some line items on the balance sheet will be described differently (renamed) under IFRS compared to previous GAAP, although the assets and liabilities included in these line items are unaffected. These line items are as follows (with previous GAAP descriptions in brackets):

- Rehabilitation provision (asset retirement obligation)
- Deferred income tax liabilities (future income tax liabilities)
- Share premium (contributed surplus)

2. Transition elections

The Company has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

	As described in note 3
Cumulative translation adjustment	b.
Rehabilitation provision	c.
Business combinations	e.
Share based payments	f.
Borrowing costs	g.

3. Preliminary Reconciliation of equity as previously reported under Canadian GAAP to IFRS

Equity		**Jan 1, 2010**
(In thousands of U.S. dollars)	a.	
Equity as reported under Canadian GAAP		30,501
Accumulated other comprehensive loss		
Cumulative translation adjustment	b.	2,232
		2,232
Deficit		
Cumulative translation adjustment	b.	(2,232)
Rehabilitation provision	c.	65
Rehabilitation cost	c.	(63)
Deferred income tax liabilities	d.	13
		(2,217)
Equity as reported under IFRS		30,516

a. **Presentation currency** – simultaneous with the transition to IFRS, the Company will change the presentation currency of its consolidated financial statements to U.S. dollars consistent with the predominant presentation currency of the mining industry. In making this change at the transition date, all assets and liabilities have been translated at the closing rate on December 31, 2009. In the first consolidated financial statements prepared under IFRS at March 31, 2011, the change in presentation currency to U.S. dollars will be applied retrospectively back to the transition date, January 1, 2010. There is no need to restate beyond the transition date when the exemption described in the next paragraph is taken.

b. **Cumulative translation adjustment** – in accordance with IFRS transitional provisions, the Company will elect to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations, to zero at the date of transition to IFRS. The accumulated other comprehensive loss will be decreased and the deficit has been increased by $2,232.

c. **Rehabilitation provision** – similar to Canadian GAAP, when a rehabilitation provision (asset retirement obligation) is established, the Company is required to set up a corresponding asset and depreciate it over the remaining useful life of the asset. Any changes in the rehabilitation provision are added to or subtracted from the cost of the asset to which the obligation relates. In accordance with IFRS transitional provisions, the Company elected to take a simplified approach to calculate and record the asset related to the rehabilitation provision in the opening IFRS consolidated balance sheets. The rehabilitation provision on the transition date calculated in accordance with IFRS is discounted back to the date when the provision first arose, at which date the corresponding asset is set up. This asset is then depreciated to its carrying amount at the transition date.

The rehabilitation provision calculated at the transition date would decrease the carrying amount of the previous asset retirement obligation recognized under Canadian GAAP by $65 and the deficit will be reduced. The corresponding asset will also decrease but by $63 net of depreciation and the deficit will be charged.

d. **Deferred income tax liabilities** – a portion of deferred (future) income tax liabilities recognized under Canadian GAAP amounting to $13 will be derecognized under IFRS and the deficit will be reduced. Derecognition is required because under IFRS the tax liability would have been exempted at initial recognition as its tax base was zero.

e. **Business combinations** – in accordance with IFRS transitional provisions, the Company elected to apply IFRS relating to business combinations prospectively from January 1, 2010. As such, Canadian GAAP balances relating to business combinations entered into before that date have been carried forward without adjustment except where such balances do not meet the transitional requirement to recognize or derecognize assets and liabilities in accordance with IFRS. There were no adjustments arising from this election as all acquired assets and liabilities conformed to IFRS.

f. **Share-based payments** – in accordance with IFRS transitional provisions, the Company elected to apply IFRS relating to share-based payments retrospectively to outstanding stock options that had not vested prior to January 1, 2010. There were no adjustments arising from this election as all outstanding stock options had vested by January 1, 2010.

g. **Borrowing costs** – in accordance with IFRS transitional provisions, the Company elected to apply IFRS relating to borrowing costs prospectively from January 1, 2010. There were no adjustments arising from this election at the date of transition.

ADDITIONAL SOURCES OF INFORMATION

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

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

FINANCIAL REVIEW

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and other information in management's discussion and analysis were prepared by the management of Excellon Resources Inc., reviewed by the Audit Committee of the Board of Directors and approved by the Board of Directors.

Management is responsible for the preparation of the consolidated financial statements and believes that they fairly represent the Company's financial position and the results of its operations in accordance with Canadian generally accepted accounting principles. Management has included amounts in the Company's consolidated financial statements based on estimates, judgments and policies that it believes reasonable in the circumstances.

To discharge its responsibilities for financial reporting and for the safeguarding of assets, management believes that it has established appropriate systems of internal accounting control which provide reasonable assurance, at appropriate cost, that the assets are maintained and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's books and records.

The Board of Directors, through its Audit Committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Audit Committee is composed of four directors. This Committee meets periodically with management and the external auditors to review accounting, auditing, internal control and financial reporting matters.

The consolidated financial statements have been audited by PricewaterhouseCoopers, LLP, Chartered Accountants, who were appointed by the shareholders. The auditors' report outlines the scope of their examination and their opinion on the consolidated financial statements.

Chief Executive Officer

Chief Financial Officer

March 22, 2011

To the Shareholder of Excellon Resources Inc.

We have audited the accompanying consolidated financial statements of Excellon Resources Inc., which comprise the consolidated balance sheets as at December 31, 2010 and 2009 and the consolidated statements of operations, consolidated statements of changes in shareholders' equity and comprehensive loss and cash flows for the year ended December 31, 2010 and for the five-month period ended December 31, 2009, and the related notes including a summary of significant accounting policies.

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 Canadian generally accepted accounting principles 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 audits. 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 audits 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 audits is sufficient and appropriate tot provide a basis for our audit opinion.

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, 2010 and 2009 and its results of operations and cash flows for the year ended December 31, 2010 and for the five-month period ended December 31, 2009 in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

PricewaterhouseCoopers, LLP
Chartered Accountants', Licensed Public Accountants
Toronto, Ontario

March 22, 2011

CONSOLIDATED BALANCE SHEETS

[expressed in Canadian dollars]

As at	**December 31, 2010 $**	December 31, 2009 $
ASSETS		
Current		
Cash and cash equivalents	**1,977,798**	4,692,698
Short-term investments	**–**	10,898
Accounts receivable	**1,955,454**	4,278,719
Prepaid expenses and deposits	**1,305,276**	971,987
Inventory *(note 4)*	**1,382,901**	455,921
Income taxes receivable *(note 10)*	**2,480,981**	866,102
Future income tax *(note 10)*	**212,536**	–
Total current assets	**9,314,946**	11,276,325
Mineral properties *(note 3)*	**9,248,979**	12,682,628
Property, plant and equipment, net *(note 5)*	**16,636,167**	15,194,771
	35,200,092	39,153,724
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	**2,955,591**	3,169,346
Asset retirement obligation *(note 6)*	**489,439**	431,975
Employee future benefits (note 7)	**987,220**	484,697
Future income tax liability (note 10)	**–**	808,869
	4,432,250	4,894,887
Shareholders' equity		
Share capital *(note 9)*	**58,510,972**	55,641,977
Contributed surplus *(note 9)*	**7,901,412**	7,822,962
Accumulated other comprehensive loss	**(2,554,699)**	–
Deficit	**(33,089,843)**	(29,206,102)
Total shareholders' equity	**30,767,842**	34,258,837
	35,200,092	39,153,724

Commitments and contingencies (notes 3, 6, 7, 8, 10 and 14)

Approved by the Board of Directors

Director
A.Y. Fortier

Director
T.J. Ryan

[expressed in Canadian dollars]

For the periods ended	**December 31, 2010 $ (12 months)**	December 31, 2009 $ (5 months)
REVENUE	**30,425,392**	16,031,660
Cost of production	**16,307,506**	8,222,472
Depletion, depreciation and amortization	**2,650,110**	935,134
	11,467,776	6,874,054
General and administration	**4,895,567**	1,769,439
Stock-based compensation *(note 9(b))*	**1,198,870**	535,123
Exploration	**9,010,297**	2,672,450
Write-down of mineral property *(note 3)*	**1,303,880**	–
Accretion *(note 6)*	**96,551**	21,841
	(5,037,389)	1,875,201
Other Income		
Foreign exchange (loss)	**(393,154)**	(208,290)
Interest (expense)	**(514)**	(1,316)
	(393,668)	(209,606)
Income (loss) before taxes	**(5,431,056)**	1,665,596
Income tax expense (recovery) *(note10)*		
Current income taxes	**(525,911)**	(23,039)
Future income taxes	**(1,021,405)**	951,596
	(1,547,316)	928,557
Net (loss) income for the period	**(3,883,741)**	737,038
Income (loss) per share		
Basic	**(0.02)**	0.00
Diluted	**(0.02)**	0.00
Weighted average number of common shares		
Basic	**242,736,136**	240,684,690
Diluted	**249,013,444**	243,093,374

The notes on pages 6 to 26 form an integral part of these financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS

[expressed in Canadian dollars]

For the periods ended	**December 31, 2010 $ (12 months)**	December 31, 2009 $ (5 months)
Share Capital		
Balance at beginning of period	**55,641,977**	54,964,281
Shares issued	**2,868,995**	677,696
Balance at end of period	**58,510,972**	55,641,977
Contributed Surplus		
Balance at beginning of period	**7,822,962**	7,565,935
Shares issued, warrants and options exercised	**(1,120,420)**	(278,096)
Amortization of options granted	**1,198,870**	535,123
Balance at end of period	**7,901,412**	7,822,962
Accumulated Other Comprehensive Income (Loss)		
Balance at beginning of period	**–**	–
Foreign exchange loss on translation of self-sustaining foreign operations	**(2,554,699)**	–
Balance at end of period	**(2,554,699)**	–
Deficit		
Balance at beginning of period	**(29,206,102)**	(29,943,140)
Loss for the period	**(3,883,741)**	737,038
Balance at end of period	**(33,089,843)**	(29,206,102)
Total Shareholders' Equity	**30,767,842**	34,258,837
Comprehensive income (loss)		
Income (loss) for the period	**(3,883,741)**	737,038
Other comprehensive income	**(2,554,699)**	–
Total comprehensive income (loss)	**(6,438,440)**	737,038

The notes on pages 6 to 26 form an integral part of these financial statements

[expressed in Canadian dollars]

For the periods ended	**December 31, 2010 $ (12 months)**	December 31, 2009 $ (5 months)
OPERATING ACTIVITIES		
Net income (loss) for the period	**(3,883,741)**	737,038
Add (deduct) items not affecting cash		
Future income tax (recovery)	**(809,714)**	951,596
Stock-based compensation	**1,198,870**	535,127
Write-down of mineral property	**1,303,880**	–
Amortization of property, plant and equipment	**1,895,717**	325,799
Amortization of acquisition and deferred development costs	**722,687**	466,181
Amortization of deferred financing costs	**–**	47,930
Amortization of acquisition costs	**140,952**	95,224
Employee future benefits	**502,523**	2,650
Accretion of asset retirement obligation	**96,551**	21,841
Revision of estimate of asset retirement obligation	**(39,087)**	–
	1,128,638	3,183,386
Net change in non-cash working capital balances related to operations *[note 13]*	**(1,246,350)**	(3,089,170)
Cash provided by (used in) operating activities	**(117,712)**	94,216
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(4,307,726)**	(2,870,844)
Proceeds on sale of property, plant and equipment	**1,393**	–
Cash used in investing activities	**(4,306,333)**	(2,870,844)
FINANCING ACTIVITIES		
Proceeds from issuance of share capital *[note 9]*	**1,748,575**	399,600
Cash provided by financing activities	**1,748,575**	399,600
Effect of exchange rate changes on cash	**(39,431)**	(134,325)
Net decrease in cash during the period	**(2,714,900)**	(2,511,353)
Cash and cash equivalents, beginning of period	**4,692,698**	7,204,051
Cash and cash equivalents, end of period	**1,977,798**	4,692,698
Supplemental cash flow information		
Interest paid	**538**	449
Income taxes paid	**1,770,594**	1,505,132

1. NATURE OF OPERATIONS

Excellon Resources Inc. (the "Company" or "Excellon"), a company incorporated under the laws of the province of British Columbia and its wholly-owned subsidiaries (the "Company") is engaged in the acquisition, exploration, development and extraction of high-grade silver-zinc-lead metals in Mexico. The Company owns and operates the Platosa Property in Durango State and the Miguel Auza Property in Zacatecas State, Mexico.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ["Canadian GAAP"] and are presented in Canadian dollars unless otherwise specified.

These consolidated financial statements follow the same accounting policies and methods of their application as the financial statements ended December 31, 2009 except that effective January 1, 2010, the Company's foreign subsidiaries were deemed to be operationally and financially self sufficient, and accordingly, classified as self sustaining foreign operations. Prior to 2010, these subsidiaries were considered to be integrated foreign operations since they were financially and operationally dependent upon Excellon.

This change results in the use of the current rate translation method where asset and liabilities are translated at period end rates and revenue and expenses are translated at monthly average exchange rates for the period. Foreign exchange gains or losses on translation are recorded as a component of Accumulated Other Comprehensive Income (Loss) ("AOCI").

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

A summary of the significant accounting policies is set out below:

Principles of consolidation

The consolidated financial statements include the accounts of Excellon and its wholly-owned subsidiaries, Excellon Resources U.S.A. Inc., Minera Excellon de Mexico, S.A. de C.V. ["Minera Excellon"], Excellon New Mining Projects, S.A. de C.V., Excellon Resources (Bahamas) Inc., Destorbelle Mines Limited ["Destorbelle"], Silver Eagle Mines Inc ["SEG"], San Pedro Resources, S.A. de C.V., Prestadora De Servicios Miguel Auza, S.A. de C.V. and Servicios Mineros San Pedro, S.A. de C.V.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of estimates include the rates of amortization for property and equipment, recoverability of mineral property interests, valuation of asset retirement obligations ("ARO") and accrued liabilities, assumptions used in the determination of the fair value of stock-based compensation and determination of the valuation allowance for future income tax assets. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand and short-term investments with a term to maturity at the date of purchase of 90 days or less.

Short-term investments

Short-term investments are carried at fair value and are comprised of guaranteed investment certificates with maturity dates greater than 90 days and less than one year.

Inventory

Inventory consists of stockpiled ore, concentrate and production spares and is recorded at the lower of cost and net realizable value on a weighted average basis. Cost is comprised of the cost of mining the ore and an allocation of an attributable amount of mining overheads related to the mineral properties. Units included as stockpiled ore are based upon the stockpile weight, expected recoveries and assays performed. Since the stockpiled ore is processed within a short period of time, the inventoried costs are reported as a current asset and related cash flows as operating activities in the consolidated statements of cash flows.

Mineral properties and mining exploration costs

Costs of mineral properties, acquisition costs, property option payments, development costs and exploration expenditures incurred before the receipt of a mine plan supporting the recoverability of such costs are expensed in the accounts.

Costs of mineral properties, acquisition costs, property option payments and development costs incurred after the receipt of a mine plan supporting the recoverability of such costs have been capitalized in the accounts. These costs are being amortized on a unit-of-production basis over the total estimated recoverable mineral resources or will be written down to fair market value if the mineral property is abandoned or the costs are no longer recoverable.

Financial Instruments

With the exception of certain related party transactions, all financial instruments are initially recognized at fair value. Measurement after initial recognition is dependent on the financial instrument's classification into one of the following categories:

- Held for trading ["HFT"] – financial assets and financial liabilities classified as HFT are measured at fair value with gains and losses recognized in net income in the period in which they arise. This category applies to financial assets and financial liabilities that have been acquired or incurred for the purpose of short-term profit taking or are derivatives. Canadian GAAP permits the Company to designate any financial instruments whose fair value can be reliably measured as HFT on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of HFT.
- Available for sale ["AFS"] – financial assets classified as AFS are measured at fair value, with the exception of investments in equity instruments that do not have a quoted market price in an active market, which are measured at cost. Unrealized gains and losses are recognized in Other Comprehensive Income ["OCI"] and reclassified to net income when realized through disposal or impairment. This category applies to non-derivative financial assets that are designated as AFS, or that are not classified into one of the other categories.
- Loans and receivables ["L&R"] – financial assets classified as L&R are measured at amortized cost using the effective interest method. Gains and losses are recognized in net income in the period that the asset is derecognized or impaired. This category applies to non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay.
- Held to maturity ["HTM"] – financial assets classified as HTM are measured at amortized cost using the effective interest method. Gains and losses are recognized in net income in the period the asset is derecognized or impaired. This category applies to non-derivative financial assets not meeting the definition of loans and receivables that have fixed or determinable payments and a fixed maturity that the Company has a positive intention and ability to hold to maturity.
- Other – non-derivative financial liabilities classified as other are measured at amortized cost using the effective interest method. Gains and losses are recognized in net income in the period the liability is derecognized.

Transaction costs are defined as costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs incurred with respect to financial assets and financial liabilities classified as HFT are recognized in net income as incurred. With respect to transaction costs incurred relating to financial assets and financial liabilities classified as other than HFT, the Company has elected to add these transaction costs to the initial carrying value of the related financial asset or financial liability and are amortized using the effective interest method.

With respect to contracts that are not leveraged, do not contain an option feature and require payments denominated in a currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transaction takes place, the Company accounts for the contract as a single instrument and not separately account for the embedded foreign currency derivative.

The Company accounts for normal course purchases and sales of financial instruments using settlement-date accounting.

Property, plant and equipment

Property, plant and equipment are stated at cost. Amortization is provided on a straight-line basis over the following periods:

Mining equipment	10 years
Pumps	3 years
Trucks	4 years
Office equipment	3 years
Software and licenses	1 year
Furniture and fixtures	5 years
Buildings	20 years
Mill equipment	8 years
Asset retirement obligation ("ARO")	Over the life of the related asset
Construction in Progress	Over life of related asset once in service
Leasehold improvements	Over the term of the lease

Asset retirement obligation

The Company recognizes the fair value of an ARO in the period in which it is incurred when a reasonable estimate, using engineering estimates of the cost to reclaim the mine site can be made. These obligations are measured initially at fair value of the estimated ARO and recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of the discount and the expense is recorded in the income statement. Revisions in the amount or timing of the underlying future cash flows are immediately recognized as an increase or decrease in the carrying amounts of the liability and related assets. These costs are amortized over the life of the related asset.

Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. Any difference between the actual costs incurred upon settlement of the ARO and the recorded liability is recognized as a gain or loss in the Company's earnings in the period in which the settlement occurs.

Employee future benefits

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.

Foreign currency translation

Assets and liabilities of the Company's self-sustaining foreign operations denominated in foreign currencies are translated into Canadian dollars at year-end exchange rates. Revenue and expenses are translated at monthly average exchange rates for the year. Differences arising from these foreign currency translations are recorded as accumulative foreign currency translation adjustments within other comprehensive loss and AOCI until they are realized by a reduction in the investment.

Revenue recognition

Revenue is recognized when title to the shipped concentrate and the risks and rewards of ownership pass to the buyer. Prices used for the provisionally priced sales are based on market prices prevailing at the time of shipment and are adjusted at each subsequent reporting date to the then current forward prices. Upon final settlement with customers, prices are adjusted to the terms of the sales contract.

Stock-based compensation plan

The Company has a stock-based compensation plan that is described in note 9 [b]. The Company accounts for all stock-based compensation by measuring all awards granted or modified under the fair value based method of accounting, using the Black-Scholes option pricing model, and charges the compensation to the consolidated statements of operations and deficit. Consideration paid on the exercise of stock options and warrants is credited to share capital.

Income taxes

The Company follows the liability method of income tax allocation. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized.

Leases

Payments for operating leases are recorded in operations on a straight-line basis over the term of the lease.

Earnings (loss) per share

Basic earnings (loss) per share has been determined by dividing net income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share is calculated using the treasury stock method. Under this method, proceeds that could be obtained upon exercise of dilutive securities are assumed to be used to purchase common shares at the average market price during the year. Diluted earnings (loss) per share is not adjusted when the impact of the share issuances would be anti-dilutive.

3. MINERAL PROPERTIES

Platosa Property

As at December 31, 2010, the Company owns an interest in the Platosa Property (the "Property") located in northeastern Durango State, Mexico. The Property is divided into four areas:

The first area (the "Core Area") contains the existing resource. The Core Area is owned 100% by the Company subject to a net smelter return royalty ("NSR") payable to Golden Minerals Company (formerly Apex Silver Mines Limited). An NSR of $304,173 (five months ended December 31, 2009 – $362,233) for the year ended December 31, 2010 is included in cost of production. The NSR rate for the year ended December 31, 2010 is 1.0%.

The second area (the "Joint Venture Area") adjoins the Core Area largely to the north, east and south. On November 13, 2009 the Company purchased the remaining 49% joint venture interest from Golden Minerals Company, for US$2.0 million in cash and a 1% NSR and now has a 100% interest in this area.

The third area (the "Saltierra Properties") adjoins the Core Area and the Joint Venture Area, largely to the west. The Company has acquired a 100% interest in this area from Exploraciones del Altiplano, S.A. de C.V. ("Altiplano"), subject to a 3% NSR payable to Altiplano. The 3% NSR payable to Altiplano can be reduced to 1.5% by paying U.S. $2,000,000. During the year ended July 31, 2008, the Company acquired two additional concessions, for a nominal amount, adjoining and to the west of the Saltierra Properties. These concessions are subject to the 3% NSR payable to Altiplano.

The fourth area (the "Other Properties") adjoins the Joint Venture Area to the north. The Other Properties were acquired during fiscal 2006 and are 100% owned by the Company and are not subject to any underlying agreement or royalty.

In connection with a marketing agreement and loan agreement entered into with a customer in 2005, the Company granted a royalty of US$0.50 per tonne mined at Platosa for the first 5 million tonnes, US$0.25 per tonne on the next 5 million tonnes and US$0.10 per tonne on the remaining tonnes mined.

[expressed in Canadian dollars]

Miguel Auza Property

The Company, through its wholly-owned subsidiary, has exclusive and irrevocable rights to explore, develop, exploit and commercialize mineral properties. The Company's mineral rights include concessions known as: the Amanda Gaitan Moreno Concessions (Santa Maria, Santa Fe, Olivia, El Calvario, La Zacatecana and El Rayo claims), the Javier Martinez Lomas Concession (La Antigua claim), the Enrique Gaitan Enriquez Concessions (Negrillas Fracc. A, Negrillas Fracc. B, Mariana Fracc. A, Mariana Fracc. B, and Mariana Fracc. C claims), the Michael Francis Neumann Florence Concession (Thelma claim), the San Pedro Concessions (Ampliacion Thelma, Ampliacion Thelma Fracc. 1 and Ampliacion Thelma Fracc. 2, as staked and registered as to title), and the Don Pedro Concession. Further, during 2006 a mining concession was staked known as El Siete, registered with the Director General of Mining for Mexico. On May 18, 2007, San Pedro obtained clear title over the mining concession known as El Siete, which is not subject to any royalty or payment to third parties, except for applicable taxes. The properties have legacy mines with numerous shafts, head-frames, and historic workings.

Effective November 23, 2006, SEG agreed to certain amendments to the Thelma Claim agreement (dated September 17, 2003) between Michael Neumann and a subsidiary of the Company. The Thelma Claim is adjacent to, and forms part of, the Miguel Auza Project. The original Thelma Claim agreement, which provided for a 1% NSR and no buyout right, was amended to provide for a 3% NSR, net of a minimum monthly royalty of U.S. $20,000, commencing May 15, 2007; furthermore, San Pedro now has the right, exercisable at any time at its sole discretion, to buyout the royalty and title to this claim for U.S. $2 million. Commencing December 1, 2009 the monthly royalty amount was reduced to U.S. $5,000 from U.S. $20,000 with all other agreement terms remaining unchanged.

During the fourth quarter of 2010, the Company decided to cease keeping the mine on care and maintenance. Accordingly, mineral property in an amount of $1,303,880 was written-off in the period.

In November 2010, the Company entered into an option agreement to acquire up to a 75% interest in its 17,000 hectare Pluton Property located to the west of and contiguous with portions of the Platosa Property. Excellon can earn a 60% interest in the property by making an up-front cash payment of $50,000 (paid) and incurring $1,500,000 in exploration expenditures over three years. An additional 15% interest may be earned by completing a pre-feasibility study within another three years.

Mineral Properties

	December 31, 2010				
	Cost $	Accumulated Amortization $	Carrying value before write-down $	Write-down $	Carrying value before write-down $
Acquisition costs	**8,673,340**	**7,171,848**	**1,501,492**	**–**	**1,501,492**
Deferred development costs					
Mineral rights	**2,546,899**	**577,068**	**1,969,831**	**–**	**1,969,831**
Property	**10,692,632**	**3,983,440**	**6,646,192**	**1,303,880**	**5,342,312**
Road	**75,536**	**62,109**	**13,427**	**–**	**13,427**
Mine development	**1,268,944**	**940,934**	**328,010**	**–**	**328,010**
Metallurgic	**79,571**	**58,520**	**21,051**	**–**	**21,051**
Milling	**100,015**	**84,492**	**15,523**	**–**	**15,523**
Administration	**271,995**	**214,662**	**57,333**	**–**	**57,333**
	14,972,592	**5,921,225**	**9,051,367**	**1,303,880**	**7,747,487**
	23,645,932	**13,093,073**	**10,552,859**	**1,303,880**	**9,248,979**

[expressed in Canadian dollars]

	Cost $	Accumulated Amortization $	Carrying value before write-down $	Write-down $	Carrying value before write-down $
					December 31, 2009
Acquisition costs	8,673,340	7,030,896	1,642,444	–	1,642,444
Deferred development costs					
Mineral rights	2,738,936	548,196	2,190,740	–	2,190,740
Property	12,576,601	4,432,707	8,143,894	–	8,143,894
Road	110,031	86,811	23,220	–	23,220
Mine development	1,811,089	1,291,112	519,977	–	519,977
Metallurgical	115,909	79,542	36,367	–	36,367
Milling	145,689	118,846	26,843	–	26,843
Administration	396,207	297,064	99,143	–	99,143
	17,894,462	11,040,184	11,040,184	–	11,040,184
	26,567,802	12,682,628	12,682,628	–	12,682,628

All development costs incurred until production commenced were capitalized. These costs are being amortized on a unit-of-production basis.

4. INVENTORY

	December 31, 2010 $	December 31, 2009 $
Ore	**76,040**	225,700
Concentrate	**436,156**	–
Production spares	**870,705**	230,221
	1,382,901	455,921

5. PROPERTY, PLANT AND EQUIPMENT

	Cost $	**Accumulated amortization $**	**Carrying value $**
			December 31, 2010
Mining equipment	**6,240,359**	**1,640,833**	**4,599,526**
Trucks	**371,002**	**204,635**	**166,367**
Office equipment	**550,320**	**394,805**	**155,515**
Furniture and fixtures	**174,833**	**106,287**	**68,546**
Buildings	**1,523,631**	**98,930**	**1,424,701**
Leasehold improvements	**253,262**	**186,681**	**66,581**
Asset Retirement Cost	**448,320**	**72,651**	**375,669**
Mill Equipment	**7,127,028**	**1,316,635**	**5,810,393**
Construction in progress	**3,968,869**	**–**	**3,968,869**
	20,657,624	**4,021,457**	**16,636,167**

[expressed in Canadian dollars]

	December 31, 2009		
	Cost $	Accumulated amortization $	Carrying value $
Mining equipment	4,633,733	1,345,598	3,288,135
Trucks	361,795	156,145	205,650
Office equipment	387,901	340,907	46,994
Furniture and fixtures	137,355	76,426	60,929
Buildings	51,969	6,301	45,668
Leasehold improvements	253,262	133,463	119,799
Asset Retirement Cost	431,711	28,379	403,332
Mill Equipment	6,962,686	423,869	6,538,817
Construction in progress	4,485,447	–	4,485,447
	17,705,859	2,511,088	15,194,771

6. ASSET RETIREMENT OBLIGATION

The key assumptions on which the fair value of the ARO is based include the estimated future cash flows, the timing of those cash flows, and the credit-adjusted risk-free rate or rates at which the estimated cash flows have been discounted at a rate of 15%. As of December 31, 2010, undiscounted cash outflows approximating $1,225,000 are expected over a seven year period for the Platosa and Miguel Auza properties.

In view of the uncertainties concerning future asset retirement and progressive reclamation costs, the ultimate costs to the Company could differ materially from the amounts estimated. The estimate for the future liability is subject to change based on possible amendments to applicable laws and legislation, the nature of ongoing operations and technological innovations. Future changes, if any, due to their nature and unpredictability, could have a significant impact and would be reflected prospectively as a change in an accounting estimate.

	December 31, 2010	December 31, 2009
Balance, beginning of period	**431,975**	447,175
Revision of estimate	**(39,087)**	(36,241)
Accretion	**96,551**	21,041
Balance, end of period	**489,439**	431,975

7. EMPLOYEE FUTURE BENEFITS

The Company accrues employee future benefits as described in Note 2. The liability associated with the termination benefits is calculated as the present value of expected future payments estimated at the balance sheet date.

[expressed in Canadian dollars]

8. COMMITMENTS

The Company has entered into agreements to lease surface rights, premises and equipment under operating lease agreements expiring at various dates to 2014 and thereafter. The future minimum annual lease payments are as follows:

	$
2011	1,313,994
2012	723,160
2013	594,318
2014	613,534
Thereafter [1]	14,111,284
	17,356,290

[1] Consists of the remaining 23 years of a 30-year surface rights lease with Ejido La Sierrita with an inflation indexed annual payment of approximately US $520,000. The Company has the right to terminate this lease at any time on one year's notice.

In connection with the Company's surface rights lease with Ejido La Sierrita, it has committed to, should the untreated water not be of quality appropriate for agricultural purposes, construct and install a water treatment plant for the water extracted from the mine. This commitment is conditional on the granting of permits required by the Comisión Nacional del Agua ("CONAGUA"). At December 31, 2010 no permits have been granted.

9. SHARE CAPITAL

Share capital consists of the following:

Authorized
An unlimited number of common shares

	Shares #	Amount $	Contributed Surplus $
Issued			
Balance at July 31, 2009	239,449,036	54,964,281	7,565,935
Shares issued on exercise of options (b)	1,965,000	677,696	(278,096)
Options granted	–	–	535,123
Balance at December 31, 2009	241,414,036	55,641,977	7,822,962
Shares issued on exercise of compensation options (a)	3,881,077	931,458	(532,465)
Shares issued on exercise of options (b)	2,578,333	1,937,537	(587,955)
Options granted	–	–	1,198,870
Balance at December 31, 2010	247,873,446	58,510,972	7,901,412

[expressed in Canadian dollars]

[a] In connection with private placements in March and April 2009, the Company granted the agent 3,881,077 compensation options exercisable for one common share on each payment of $.24 per share. During the year, these options were exercised for proceeds of $931,458.

[b] Stock-based compensation plan

The Company has a fixed price stock option plan. Under the plan, the Company may grant options to its employees for up to 10% of the common shares issued and outstanding. Under the plan, the exercise price of each option may not be less than the market price of the Company's common shares on the date of grant, and an option's maximum term is five years. Options may be granted by the Board of Directors at any time and may vest immediately upon grant.

During the period, the Company issued 3,095,000 options to certain employees, directors and consultants:

					December 31, 2010	
Grant Date	**Options #**	**Exercise Price $**	**Vesting Period**	**Expiry Period**	**Stock-based Compensation Expense**	**Contributed Surplus**
March 4, 2010	250,000	0.74	immediately	5 years	132,322	132,322
March 24, 2010	100,000	0.99	3 years	5 years	45,059	45,059
September 7, 2010	250,000	0.77	3 years	5 years	68,769	68,769
December 16, 2010	2,495,000	0.98	3 years	5 years	640,335	640,335
	3,095,000				886,485	886,485

The fair value of the stock options is estimated at the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions:

	December 31, 2010	December 31, 2009
Risk-free interest rate	**2.21%**	2.42%
Expected dividend rate	**0%**	0%
Expected volatility	**0.9485**	0.9697
Expected life of options	**5 years**	5 years

The Black-Scholes option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options which are fully transferable and have no vesting restrictions. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise. Because the Company's outstanding stock options have characteristics which are significantly different from those of traded options, and because changes in any of the assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

During the year, options to acquire 6,459,410 [five month period ended December 31, 2009 – 1,965,000] common shares were exercised for total proceeds of $1,748,575 [five month period ended December 31, 2009 – $399,600]. Upon exercise of the options, the fair value of the options in contributed surplus of $1,198,870 [five month period ended December 31, 2009 – $278,096] was added to share capital.

[expressed in Canadian dollars]

A summary of the status of the Company's fixed stock option plan at December 31, 2010 and 2009 is presented below:

	December 31, 2010		December 31, 2009	
	Options #	**Weighted average exercise price $**	Options #	Weighted average exercise price $
Outstanding, beginning of year	**12,721,312**	**1.00**	12,486,312	1.00
Granted	**3,095,000**	**0.94**	2,900,000	0.13
Exercised	**(2,578,333)**	**0.32**	(1,965,000)	0.20
Expired	**(393,707)**	**1.35**	(700,000)	0.33
Outstanding, end of year	**12,844,272**	**1.18**	12,721,312	1.00

The following table summarizes information about fixed stock options outstanding at December 31, 2010:

Exercise Price $	**Number outstanding #**	**Number exercisable #**	**Number outstanding & exercisable #**	**Weighted average remaining contractual life (years)**
0.40	345,000	–	345,000	0.07
0.83	500,000	–	500,000	0.24
0.97	750,000	–	750,000	0.90
1.41	400,000	–	400,000	1.07
1.58	2,155,000	–	2,155,000	2.01
1.07	200,000	–	200,000	2.52
0.19	1,700,000	–	1,700,000	2.95
3.89	1,299,272	–	1,299,272	3.40
0.27	50,000	–	50,000	3.48
0.60	100,000	–	100,000	3.81
0.56	1,583,329	666,671	2,250,000	3.95
0.74	250,000	–	250,000	4.18
0.99	33,333	66,667	100,000	4.23
0.77	83,333	166,667	250,000	4.69
0.98	831,663	1,663,337	2,495,000	4.96
0.19– 3.89	10,280,930	2,563,342	12,844,272	2.83

[expressed in Canadian dollars]

10. INCOME TAXES

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

	December 31, 2010 $	December 31, 2009 $
Statutory tax rates	**31.00%**	33.00%
Income taxes (recovery) computed at the statutory rates	**(1,683,627)**	549,645
Non-deductible items	**(577,776)**	583,438
Change in valuation allowance	**3,729,941**	(1,668,633)
Foreign tax differentials, rate changes and other	**(3,015,854)**	1,464,107
Provision for income taxes	**(1,547,316)**	928,557

Provision for income taxes consists of the following:

	December 31, 2010 $	December 31, 2009 $
Current income taxes (recovery)	**(525,911)**	(23,039)
Future income taxes (recovery)	**(1,021,405)**	951,596
	(1,547,316)	928,557

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

	December 31, 2010 $	December 31, 2009 $
Non-capital losses carried forward	**11,746,276**	8,543,213
Capital losses	**1,395,296**	1,395,296
Resource related deductions	**2,074,205**	2,325,820
Share issuance costs	**253,238**	602,649
Property, plant and equipment	**2,605,313**	1,642,493
Accrued revenue	**10,878**	–
Other	**597,254**	149,095
Future income tax asset	**18,682,460**	14,658,566
Valuation allowance	**(18,388,507)**	(14,658,566)
Recognized future income tax assets	**293,953**	–
Deferred income	**(81,417)**	(769,891)
Prepaid expenses, deposits and other	**–**	(38,978)
Net future income tax asset (liabilities)	**212,536**	(808,869)

The Company's income taxes receivable as at December 31, 2010 is $2,480,981 [receivable December 31, 2009 – $866,102].

[expressed in Canadian dollars]

As at December 31, 2010, the Company has Canadian non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

	$
2012	175,721
2013	24,989
2014	882,543
2025	3,240,872
2026	4,528,935
2027	802,676
2028	2,396,601
2029	727,698
2030	2,214,046
	14,994,081

As at December 31, 2010, the Company has Canadian capital losses of $11,162,364 that may be carried forward indefinitely and applied against capital gains of future years.

As at December 31, 2010, the Company has Mexican non-capital losses of 307,468,030 pesos ($24,775,774) [December 2009 378,870,316 pesos ($30,355,089)] that may be carried forward and applied against Mexican taxable income of future years. The non-capital losses will expire from 2011 to 2020.

11. SEGMENTED REPORTING AND INFORMATION

The Company operates in one business segment, the exploration, mine development and extraction of metals, and in two geographic areas, Canada and Mexico.

	Canada		**Mexico**	
	December 31, 2010	December 31, 2009	**December 31, 2010**	December 31, 2009
Revenue	**–**	–	**30,425,392**	16,031,660
Property, plant and equipment	**117,369**	202,689	**16,518,798**	14,992,082
Capital expenditures	**(23,928)**	(5,744)	**(4,242,748)**	(2,865,100)
Total assets	**1,456,638**	3,703,580	**33,743,454**	35,450,144

12. RELATED PARTY TRANSACTION

An officer of the Company is a partner in a firm that provides legal services to the Company. During the year, the Company paid an aggregate of $286,854 (five months period ended December 31, 2009 – $258,463) for legal services from the firm. These services were provided in the normal course of operations and are measured at the exchange amount which is the amount established and agreed to by the related parties.

[expressed in Canadian dollars]

13. CONSOLIDATED STATEMENTS OF CASH FLOWS

The net change in non-cash working capital balances related to operations consists of the following:

	December 31, 2010 $	December 31, 2009 $
Accounts receivable	**2,323,265**	237,926
Prepaid expenses and deposits	**(333,289)**	83,640
Inventory	**(926,980)**	379,199
Accounts payable and accrued liabilities	**(213,755)**	(2,566,825)
Income taxes payable	**–**	(638,249)
Income taxes receivable	**(1,614,879)**	(866,102)
Future income tax receivable	**(212,536)**	–
Short-term investments	**10,898**	(898)
Effect of exchange rate changes on non-cash working capital	**(279,074)**	282,139
	(1,246,350)	3,089,170

14. CAPITAL DISCLOSURES

The Company defines capital as total shareholders' equity (share capital, contributed surplus and deficit). The Company's objective when managing capital is to safeguard its ability to continue as a going concern. The Company also manages its capital to maintain liquidity and flexibility to meet its financial obligations and deploy capital in growing its business through the development of the Platosa Property.

The Company's capital under management includes:

	December 31, 2010 $	December 31, 2009 $
Shareholders' Equity		
Share capital	**58,510,972**	55,641,977
Contributed surplus	**7,901,412**	7,822,962
Deficit	**(33,089,843)**	(29,206,102)

15. FINANCIAL INSTRUMENTS

Fair values

Financial instruments include cash and any contracts that give rise to a financial asset to one party and a financial liability or equity instrument to another party. During 2009, CICA Handbook Section 3862, "Financial instruments – Disclosures", was amended to require disclosures about the classification and fair value of financial instruments, including their classification within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the fair value hierarchy are:

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 Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgment is required to develop these estimates. Accordingly, these estimated fair values are not necessarily indicative of the amounts the Company could realize in a current market exchange. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

[expressed in Canadian dollars]

Due to the short period to maturity of cash and cash equivalents, short-term investments, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities and income taxes payable, the carrying values as presented on the consolidated balance sheets approximate their fair values, unless otherwise stated.

The following table provides a comparison of the carrying values of the Company's financial assets and their related fair values as at December 31, 2010 and December 31, 2009:

	December 31, 2010			December 31, 2009			
	Carrying value			Carrying value			
	HFT[1]	**L&R**	**Fair value**	HFT[1]	Value	Fair value	Fair value Hierarchy
	$	**$**	**$**	$	$	$	Level
Cash and cash equivalents	**1,977,798**	**–**	**1,977,798**	4,692,698	4,692,698	4,692,698	Level 1
Short-term investments	**–**	**–**	**–**	10,898	10,898	10,898	Level 2
Accounts receivable	**–**	**1,955,454**	**1,955,454**	–	4,278,719	4,278,719	Level 1
	1,977,798	**1,955,454**	**3,933,252**	4,703,596	8,982,315	8,982,315	

[1] *Upon initial recognition, these assets were designated by the Company as HFT.*

	December 31, 2010		December 31, 2009		
	Carrying value Other	**Fair value**	Carrying value Other	Fair value	Fair value Hiereracy
	$	**$**	$	$	Level
Accounts payable and accrued liabilities	**2,955,589**	**2,955,589**	3,169,346	3,169,346	Level 2
	2,955,589	**2,955,589**	3,169,346	3,169,346	

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.

Credit risk

Cash and cash equivalents, short-term investments consist of deposits with a major international commercial bank and as a result the risk is considered very low.

The Company, in the normal course of business, is exposed to credit risk from its customer, which is a large multi-national corporation operating in the mining and oil & gas industries. 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. The company has several lease obligations expiring over the next three years in the amount of $960,667. In addition, annual payments of US $520,000 under a surface rights lease with the Ejido La Sierrita are payable over the next 23 years. Contractual commitments are disclosed in note 8.

The prevailing state of the financial markets is characterized by market turbulence arising from the credit crisis, which has resulted in growing concerns of significantly reduced economic activity worldwide, a severe limitation in access to capital, volatility and uncertainty of prospects for global metal prices, exchange rates and the cost of materials. Notwithstanding various governments launching multi billion dollar rescue plans for their respective financial systems, the debt and capital markets continue to be difficult to access, making it increasingly difficult for companies to get financing. Coupled with the above, the contemporaneous downward spiral in prices of commodities has rendered many commodity producers marginal or loss making, thus further complicating the ability of these resource companies to access financing.

In this context, the Company's access to financial resources is restricted and while it is considering all potential alternatives, including potentially raising additional capital, completing a merger or acquisition transaction, selling assets, putting the mine on care and maintenance or ceasing operations at the mine, there can be no assurance that the Company will complete any transaction that may arise in connection with any of the above.

Currency risk

The Company is exposed to currency risk as its principal business is conducted in foreign currencies. Unfavourable changes in the applicable exchange rate may result in a decrease or increase in foreign exchange gains or losses. The Company does not use derivative instruments to reduce its exposure to foreign currency risk.

As at December 31, 2010, the Company is exposed to currency risk through its cash denominated in US dollars and Mexican pesos.

As at December 31, 2010, US denominated cash amounted to US $1,369,187. Based on the balances at December 31, 2010, net loss would increase or decrease approximately $13,692 given a 1% increase or decrease, respectively, in the foreign exchange rate.

As at December 31, 2010, peso denominated cash amounted to 4,235,580 pesos. Based on the balances at December 31, 2010, net loss would increase or decrease approximately 3,423 pesos given a 1% increase or decrease, respectively, in the foreign exchange rate.

Market risk

Market risk is the risk that the value of a financial instrument might be adversely affected by a change in commodity prices, interest rates or currency exchange rates. The Company manages the market risk associated with commodity prices by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. The Company has the ability to address its price-related exposure through the limited use of options, futures and forward contracts. At the moment, the Company has chosen not to enter into such arrangements.

For the year ended December 31, 2010, management estimates that if commodity prices for silver, lead and zinc changed by 10% assuming all other variable remained constant, the impact on the net loss would be $3,938,000 (five months ended December 31, 2009 – $2,067,000).

Interest rate risk

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

Economic dependence

The Company's sole customer at year end, Consorcio Minero de México Cormin Mex, S.A. de C/V [a subsidiary within the Trafigura group of companies], had purchases representing 100% of sales during the year ended December 31, 2010 and 90% [December 31, 2009 – 90%] of the accounts receivable balance as at December 31, 2010 were held with a single customer. These sales have been completed and recorded according to the terms of an as yet unexecuted contract with the Company's sole customer, which was agreed upon in June 2009.

16. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

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