

Interim Consolidated Financial Statements
[expressed in Canadian dollars]
[unaudited]

Excellon Resources Inc.
March 31, 2010

Notice to Reader

The accompanying interim consolidated financial statements of Excellon Resources Inc. have been prepared in accordance with Canadian generally accepted accounting principles for interim financial information and accordingly do not include all disclosure required for annual financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered for a fair presentation have been included. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2010.

These interim consolidated financial statements should be read in conjunction with the audited year end consolidated financial statements as at December 31, 2009. The accounting policies and methods have not changed since the audited year-end consolidated financial statements were prepared, except as described in note 2 to these interim consolidated financial statements.

The Company's independent auditor has not performed a review of these interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Excellon Resources Inc.
INTERIM CONSOLIDATED BALANCE SHEETS
[expressed in Canadian dollars]

As at	March 31, 2010 \$ unaudited	December 31, 2009 \$ audited
ASSETS		
Current		
Cash and cash equivalents	8,169,210	4,692,698
Short-term investments	10,898	10,898
Accounts receivable [note 13]	2,232,095	4,278,719
Prepaid expenses and deposits	1,086,096	971,987
Inventory [note 5]	1,005,940	455,921
Income taxes receivable	855,005	866,102
Total current assets	13,359,244	11,276,325
Mineral properties [note 4]	10,542,519	12,682,628
Property, plant and equipment, net [note 6]	12,922,461	15,194,771
	36,824,224	39,153,724
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities [note 13]	3,976,402	3,539,711
Income taxes payable	517,349	—
Total current liabilities	4,493,751	3,539,711
Asset retirement obligation [note 7]	445,079	431,975
Employee future benefits [note 8]	116,500	114,332
Future income taxes payable	658,413	808,869
	5,713,743	4,894,887
<i>Commitments and contingencies [notes 4, 7, 8, 9 and 13]</i>		
Shareholders' equity		
Share capital [note 9]	55,850,977	55,641,977
Contributed surplus [note 9]	7,902,290	7,822,962
	63,753,267	63,464,939
Accumulated other comprehensive income (loss)	(3,985,780)	—
Deficit	(28,657,006)	(29,206,102)
	(32,642,786)	(29,206,102)
Total shareholders' equity	31,110,481	34,258,837
	36,824,224	39,153,724

The notes on pages 6 to 21 form an integral part of these financial statements

Excellon Resources Inc.
INTERIM CONSOLIDATED STATEMENTS OF
OPERATIONS AND DEFICIT
[expressed in Canadian dollars]

unaudited	Three months ended	
	March 31, 2010	April 30, 2009
	\$	\$
		<i>[note 2]</i>
REVENUE		
Sales	10,383,269	5,296,294
Cost of production	3,404,237	1,811,830
	6,979,032	3,484,464
EXPENSES		
Salaries and wages	963,166	665,684
Mine administration	647,243	400,948
Consulting fees	371,164	187,026
Office and rent	232,759	155,542
Travel and business development	92,582	13,377
Professional fees	492,835	446,400
Insurance	123,110	75,028
Transfer agent fees	8,046	3,984
Regulatory fees	29,646	16,132
Bank charges and interest	1,250	87,840
Amortization of property, plant and equipment	241,227	154,389
Foreign exchange loss	13,897	144,363
Exploration expenditures	2,279,883	210,827
Stock-based compensation <i>[note 9]</i>	241,640	29,259
Amortization of deferred financing costs	—	149,283
Amortization of acquisition costs	57,134	51,085
Accretion expense	13,104	—
	5,808,686	2,791,167
Operating profit (loss) before the following	1,170,346	693,297
Interest income	23,342	16,821
Income (loss) before income taxes	1,193,688	710,118
Provision for (recovery of) income taxes		
Current	835,582	605,426
Future	(190,990)	(516,596)
	644,592	88,830
Net Income	549,096	621,288
Deficit, beginning of period	(29,206,102)	(31,833,385)
Deficit, end of period	(28,657,006)	(31,212,097)
Income (loss) per share		
Basic	0.002	0.004
Diluted	0.002	0.004
Weighted average number of common shares		
Basic	242,142,092	172,712,052
Diluted	244,550,092	174,032,351

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Excellon Resources Inc.
INTERIM CONSOLIDATED STATEMENTS
OF CASH FLOWS

[expressed in Canadian dollars]

unaudited	Three months ended	
	March 31, 2010 \$	April 30, 2009 \$
		<i>[note 2]</i>
OPERATING ACTIVITIES		
Net income for the period	549,096	621,288
Add (deduct) items not affecting cash		
Future income taxes (recovery)	(190,990)	(516,596)
Stock-based compensation	241,640	29,259
Amortization of property, plant and equipment	241,227	154,389
Amortization of acquisition and deferred development costs	—	277,268
Amortization of deferred financing costs	—	149,283
Amortization of acquisition costs	57,134	—
Employee future benefits	2,168	—
Accretion of asset retirement obligation	13,104	—
	913,379	714,891
Net change in non-cash working capital balances related to operations <i>[note 11]</i>	2,458,864	(7,550,204)
Cash provided by (used in) operating activities	3,372,243	(6,835,313)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(419,821)	(64,471)
Cash used in investing activities	(419,821)	(64,471)
FINANCING ACTIVITIES		
Proceeds from issuance of share capital <i>[note 9]</i>	209,000	6,980,151
Cash provided by financing activities	209,000	6,980,151
Effect of exchange rate changes on cash	315,090	423,483
Net increase in cash during the period	3,476,512	503,850
Cash and cash equivalents, beginning of period	4,692,698	601,483
Cash and cash equivalents, end of period	8,169,210	1,105,333
Supplemental cash flow information		
Interest paid	—	1,089
Income taxes paid	1,413,612	9,927

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Excellon Resources Inc.
INTERIM CONSOLIDATED STATEMENTS
OF COMPREHENSIVE INCOME (LOSS)

[expressed in Canadian dollars]

unaudited	Three months ended	
	March 31, 2010 \$	April 30, 2009 \$
		[note 2]
Net income for year	549,096	621,288
Other comprehensive income (loss):		
Unrealized foreign exchange gain (loss) on translation of self sustaining foreign operations	(30,688)	
Income taxes	—	—
Other comprehensive income (loss)	(30,688)	—
Comprehensive income (loss)	518,408	621,288

The notes on pages 6 to 21 form an integral part of these financial statements

Excellon Resources Inc.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

[expressed in Canadian dollars]

March 31, 2010 - unaudited

1. NATURE OF OPERATIONS

Excellon Resources Inc., a company incorporated under the laws of the province of British Columbia and its wholly-owned subsidiaries [the "Company"] are 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 Zacatacas 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 have been prepared on the basis that the Company is a going concern which contemplates the realization of its assets and the settlement of its liabilities in the normal course of operations. The ability of the Company to continue operations is dependent upon maintaining sufficient mineral production and to continue further exploration and development of its properties. These consolidated financial statements do not include any adjustments related to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

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 three month period ended April 30, 2009.

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

Principles of consolidation

The consolidated financial statements include the accounts of Excellon Resources Inc. ["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.

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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 reserves 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. The standard 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

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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	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

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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

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 Other Comprehensive Income.

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 10[c]. 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.

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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.

Changes in accounting policies

CICA Handbook Sections 3862, "Financial Instruments – Disclosures", and CICA Handbook Section 3863, "Financial Instruments – Presentation", replaces CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation". During 2009, CICA Handbook Section 3862, Financial Instruments – Disclosures ("Section 3862"), was amended to require disclosures about the inputs to fair value measurements, 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.

At December 31, 2009 the Company's financial instruments consisted of cash and cash equivalents, other, current assets, accounts payable and accrued liabilities. With respect to all of these financial instruments, the Company estimates that the fair value of these financial instruments approximates the carrying values at December 31, 2009 and July 31, 2009, respectively. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives and provides guidance for the classification of related interest, dividends, losses and gains, and circumstances in which financial assets and financial liabilities are offset.

Future accounting changes

Business Combinations/Consolidated Financial Statements/Non-Controlling Interest

In January 2009, the CICA adopted sections 1582, "*Business Combinations*", 1601, "*Consolidated Financial Statements*" and 1602, "*Non-Controlling Interest*" which superseded current sections 1581, "*Business Combinations*" and 1600, "*Consolidated Financial Statements*". These sections will be applied

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prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. If an entity applies these sections before January 1, 2011, it is required to disclose that fact and apply each of the new sections concurrently. These new sections were created to converge Canadian GAAP to International Financial Reporting Standards.

3. ACQUISITION

On June 2, 2009, the Company completed the acquisition of all the outstanding common shares of Silver Eagle Mines Inc. for a purchase price of \$5,488,722 comprised of \$3,370,000 in common shares and \$2,118,722 in cash payments for acquisition transaction costs. The results from these operations have been included from the date of acquisition.

Specifically, the Company has purchased Silver Eagle Mines Inc. ["SEG"] and its subsidiaries: San Pedro Resources, S.A. de C.V., Servicios Mineros San Pedro, S.A. de C.V., and Prestadora De Servicios Miguel Auza, S.A. de C.V. SEG is currently in the process of exploring and evaluating mineral properties which are located near the town of Miguel Auza, State of Zacatecas, Mexico (see note 5). SEG has conducted mine exploration and development activities, including expanding its mill capacity.

Under the terms of the acquisition, SEG shareholders received 0.2704 common shares of the Company in exchange for each SEG share held. The total number of shares issued by the Company for the acquisition of SEG was 14,997,796 common shares.

The following table shows a breakdown of the purchase price:

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

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

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

In addition, the Company acquired unused non-capital tax losses in Mexico totaling \$24,390,000, which can be carried forward and applied against taxable income of future years in Mexico. No portion of the

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purchase price has been allocated to this potential future tax asset.

4. MINERAL PROPERTIES

Platosa Property

As at March 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 Ltd formerly Apex Silver Mines Limited ["Apex"]. An NSR of \$99,753 [December 31, 2009 - \$362,233] for the three month period ended March 31, 2010 is included in cost of production. The NSR rate for the three month period ended March 31, 2010 is 1.0%. As at March 31, 2009, the cumulative NSR earned by Apex is U.S. \$4,136,302 [December 31, 2009 - U.S. \$4,036,549]. Included in accounts payable and accrued liabilities as at March 31, 2010 is \$1,279,465 [July 31, 2009 - \$1,087,071] due to Apex

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% Net Smelter Returns royalty 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 prior 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.

During the year ended July 31, 2008, the Company acquired surface rights adjacent to the Property from a group of local land owners for U.S. \$1,030,000, representing the land cost and applicable legal and transfer fees. In a separate transaction, the Company acquired other surface rights totaling five hectares for U.S. \$7,468,889 located in nearby Coahuila State.

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

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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% net smelter return ("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.

Mineral Properties**March 31, 2010**

	Cost	Accumulated amortization	Carrying value
	\$	\$	\$
Acquisition costs	7,372,339	6,016,666	1,355,673
Deferred development costs			
Mineral rights	2,328,096	517,487	1,810,609
Property	10,690,111	3,902,209	6,787,902
Road	93,526	74,140	19,386
Mine development	1,539,426	1,106,026	433,400
Metallurgical	98,523	68,157	30,365
Milling	123,836	101,425	22,411
Administration	336,776	254,003	82,773
	15,210,293	6,023,447	9,186,846
	22,582,632	12,040,113	10,542,519

December 31, 2009

	Cost	Accumulated amortization	Carrying value
	\$	\$	\$
Acquisition costs	8,673,340	7,030,896	1,642,444
Deferred development costs			
Mineral rights	2,738,936	548,196	2,190,740
Property	12,576,601	4,432,707	8,143,894
Road	110,031	86,811	23,220
Mine development	1,811,089	1,291,112	519,977
Metallurgical	115,909	79,542	36,367
Milling	145,689	118,846	26,843
Administration	396,207	297,064	99,143
	17,894,462	6,854,278	11,040,184
	26,567,802	13,885,174	12,682,628

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All development costs incurred until production commenced were capitalized.. These costs are being amortized on a unit-of-production basis. The amortization of deferred development costs has been recorded in cost of production.

5. INVENTORY

	March 31, 2010	December 31, 2009
	\$	\$
Ore	350,600	225,700
Concentrate	262,340	—
Production spares	393,000	230,221
	1,005,940	455,921

6. PROPERTY, PLANT AND EQUIPMENT**March 31, 2010**

	Cost	Accumulated amortization	Carrying Value
	\$	\$	\$
Mining equipment	3,996,795	1,382,856	2,613,939
Trucks	345,576	149,489	196,087
Office equipment	354,347	307,354	46,993
Furniture and fixtures	116,800	71,061	45,739
Buildings	44,192	5,911	38,281
Leasehold improvements	215,362	124,805	90,557
Asset Retirement Cost	367,107	24,132	342,975
Mill Equipment	5,920,737	435,119	5,485,618
Construction in progress	4,062,272	—	4,062,272
	15,423,188	2,500,727	12,922,461

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

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7. 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. As of March 31, 2010, undiscounted cash outflows approximating \$965,800 are expected over an eight and ten year period for the Platosa and Miguel Auza properties, respectively.

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.

The following table provides a reconciliation of the Company's total discounted asset retirement obligations using a discount rate of 15%:

	March 31, 2010	December 31, 2009
Balance, beginning of period	431,975	447,175
Revision of estimate	—	(36,241)
Accretion	13,104	21,041
Balance, end of period	445,079	431,975

8. 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.

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	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 options [a]	825,000	209,000	(162,312)
Options granted	—	—	241,640
Balance at March 31, 2010	242,239,036	55,850,977	7,902,290

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[a] 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 350,000 options to employees and directors:

- [i] On March 4, 2010, the Company issued 250,000 options to certain directors, officers, employees and consultants. The options are exercisable at a price of \$0.74 per share for a period of five years ending March 4, 2015. The options vest immediately on the date of grant. The Company recorded stock-based compensation expense and contributed surplus of \$132,322 during the three months ended March 31, 2010 since issuance of these options.
- [ii] On March 24, 2010, the Company issued 100,000 options to certain directors, officers, employees and consultants. The options are exercisable at a price of \$0.99 per share for a period of five years ending March 24, 2015. The options vest over a period of three years from the date of grant. The Company recorded stock-based compensation expense and contributed surplus of \$26,626 during the three months ended March 31, 2010 since issuance of these options.

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

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:

	March 31, 2010	December 31, 2009
	\$	\$
Risk-free interest rate	2.26%	2.42%
Expected dividend rate	0%	0%
Expected volatility	0.9700	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 three months ended March 31, 2010, options to acquire 825,000 [December 31, 2009-1,965,000] common shares were exercised for total proceeds of \$209,000 [December 31, 2009-

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\$677,696]. Upon exercise of the options, the fair value of the options in contributed surplus of \$162,312 [December 31, 2009- \$278,096] was added to share capital.

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

	March 31, 2010		December 31, 2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of period	12,721,312	1.00	12,486,312	1.00
Granted	350,000	0.74	2,900,000	0.13
Exercised	(825,000)	0.25	(1,965,000)	0.20
Expired	—	—	(700,000)	0.33
Outstanding, end of period	12,246,312	0.85	12,721,312	1.00

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

Exercise Price	Number outstanding and exercisable	Weighted average remaining contractual life
\$	#	[years]
0.40	865,000	0.82
0.83	500,000	0.97
0.97	750,000	1.65
1.41	400,000	1.82
1.58	2,355,000	2.77
1.07	200,000	3.27
0.19	2,300,000	3.70
0.28	200,000	4.15
3.91	1,326,312	1.94
0.27	100,000	4.23
0.61	150,000	4.56
0.56	2,750,000	4.70
0.74	350,000	4.93
0.20 – 3.91	12,246,312	3.04

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10. 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	
	March 31, 2010 \$	December 31, 2009 \$	March 31, 2010 \$	December 31, 2009 \$
Revenue	—	—	10,383,269	16,031,660
Property, plant and equipment	195,689	202,689	12,726,772	14,992,082
Capital expenditures	----	5,744	(419,821)	2,865,100
Total assets	3,562,560	3,703,580	33,261,664	35,450,144

11. CONSOLIDATED STATEMENTS OF CASH FLOWS

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

	March 31, 2010 \$
Accounts receivable	2,046,624
Inventory	(550,019)
Prepaid expenses and deposits	(114,109)
Accounts payable and accrued liabilities	436,689
Income taxes payable	517,349
Income taxes receivable	11,097
Effect of exchange rate changes on cash	111,231
	<u>2,458,864</u>

12. 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 and Miguel Auza Properties.

The Company's capital under management includes:

	March 31, 2010 \$	December 31, 2009 \$
Shareholders' Equity		
Share capital	55,850,977	55,641,977
Contributed surplus	7,902,290	7,822,962
Deficit	(28,657,005)	(29,206,102)

Funds have been secured in the year ended July 31, 2009 through equity capital raised by way of a private placement and rights offering. Beginning in April, 2009 mining operations also provided a significant

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source of funds. There can be no assurances that the Company will be able to continue to raise equity capital in this manner, if required. At this time the Company is not subject to any externally imposed capital requirements.

13. FINANCIAL INSTRUMENTS**Fair values**

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.

Due to the short period to maturity of cash and cash equivalents, short-term investments, accounts receivable, prepaid expenses and deposits, silver bullion, 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, 2009 and July 31, 2009:

	March 31, 2010			December 31, 2009		
	Carrying value HFT ⁽¹⁾ \$	L&R \$	Fair value \$	Carrying value HFT ⁽¹⁾ \$	L&R \$	Fair value \$
Cash and cash equivalents	8,169,210	—	8,169,210	4,692,698	—	4,692,698
Short-term investments	10,898	—	10,898	10,898	—	10,898
Accounts receivable	—	2,232,095	2,232,095	—	4,278,719	4,278,719
	8,180,108	2,232,095	10,412,203	4,703,596	4,278,719	8,982,315

⁽¹⁾ Upon initial recognition, these assets were designated by the Company as HFT.

The classification of the Company's financial liabilities and their related carrying values and fair values were as follows as at:

	March 31, 2010		December 31, 2009	
	Carrying value Other \$	Fair value \$	Carrying value Other \$	Fair value \$
Accounts payable and accrued liabilities	3,976,401	3,976,401	3,539,711	3,539,711
	3,976,401	3,976,401	3,539,711	3,539,711

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Risk management policies and hedging activities

The Company is sensitive to changes in commodity prices, foreign exchange and interest rates. The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. Although the Company has the ability to address its price-related exposures through the use of options, futures and forward contracts, it does not generally enter into such arrangements. Similarly, derivative financial instruments are not used to reduce these financial risks.

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Credit risk

Cash and cash equivalents, short-term investments and silver bullion 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 through cash flow from existing operations. Should the Company come to believe that it does not have sufficient liquidity to meet these obligations, management will consider securing additional funds through equity or debt transactions.

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.

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.

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 five month period ended December 31, 2009 and 90% [July 31, 2009 – 58%] of the accounts receivable balance as at December 31, 2009 were held with a single customer.