Excellon Resources Inc.

Consolidated Financial Statements

[expressed in Canadian dollars]

December 31, 2010

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 fulfils 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.

(Signed) "*P. Crossgrove*"

Chief Executive Officer

(Signed) "*R. Whittall*"

Chief Financial Officer

March 22, 2011

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March 22, 2011

Independent Auditor's Report

To the Shareholders of
Excellon Resources Inc.

We have audited the accompanying consolidated financial statements of Excellon Resources Inc., which comprise the consolidated 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 audits 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 to 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"

Chartered Accountants, Licensed Public Accountants

Excellon Resources Inc.

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** **Director**

"A.Y Fortier" *"T.J. Ryan"*

Excellon Resources Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
[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

Excellon Resources Inc.
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

Excellon Resources Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
[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 tax 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.

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.

[expressed in Canadian dollars]

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 after 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]

	December 31, 2009				
	Cost $	**Accumulated Amortization** $	**Carrying value before write-down** $	**Write-down** $	**Carrying value after write-down** $
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

[expressed in Canadian dollars]

5. PROPERTY, PLANT AND EQUIPMENT

December 31, 2010

	Cost $	**Accumulated Amortization** $	**Carrying value** $
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

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.

[expressed in Canadian dollars]

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.

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.

[expressed in Canadian dollars]

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

[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

[expressed in Canadian dollars]

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.

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 period	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 period	12,844,272	1.18	12,721,312	1.00

[expressed in Canadian dollars]

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

Exercise Price	Number Outstanding	Number exercisable	Number outstanding and 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

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

[expressed in Canadian dollars]

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 assets	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 assets (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].

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.

[expressed in Canadian dollars]

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.

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

[expressed in Canadian dollars]

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.

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:

[expressed in Canadian dollars]

	December 31, 2010			December 31, 2009			
	Carrying value HFT[1] $	**Carrying value L&R $**	**Fair value $**	Carrying value HFT[1] $	Carrying 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 Hierarchy 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.