EXCELLON

Excellon Resources Inc.

Consolidated Financial Statements

December 31, 2011
in thousands of U.S. dollars

EXCELLON

Management's Responsibility for Financial Reporting

The management of Excellon Resources Inc. is responsible for the integrity and fair presentation of the accompanying consolidated financial statements.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and reflect management's best estimates and judgements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management has developed and maintains a system of internal controls to obtain reasonable assurance that the Company's assets are safeguarded, transactions are authorized and financial information is reliable. Any system of internal control over financial reporting has inherent limitations, including the possibility of circumvention and overriding of controls, and therefore, can provide only reasonable assurance with respect to financial statement preparation and presentation. Management concludes that at December 31, 2011, the Company's internal control over financial reporting was effective. The Board of Directors oversees management's responsibility for financial reporting and internal control systems through an Audit Committee, which is composed entirely of independent directors. The Audit Committee of the Board of Directors has met with the Company's independent auditors to review the scope and results of the annual audit and to review the consolidated financial statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval. The Audit Committee also reviews the quarterly financial statements and recommends them for approval to the Board of Directors, reviews with management the Company's systems of internal control and approves the scope of the independent auditors audit and non-audit work.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

(Signed) "*Jeremy Wyeth*"

Chief Executive Officer

(Signed) "*Steve Poad*"

Chief Financial Officer

March 27, 2012

March 27, 2012

Independent Auditor's Report

To the Shareholders of
Excellon Resources Inc.

We have audited the accompanying consolidated financial statements of Excellon Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income (loss) and comprehensive income (loss), changes in equity and cash flow for the years ended December 31, 2011 and December 31, 2010, and the related notes, collectively referred to as the financial statements.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our 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.

PricewaterhouseCoopers LLP, Chartered Accountants
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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, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Excellon Resources Inc.

Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	December 31, 2011 $	December 31, 2010 $	January 1, 2010 $
Assets			
Current assets			
Cash and cash equivalents	22,262	1,978	4,484
Marketable securities	-	-	10
Trade receivables	548	1,955	4,088
Income taxes receivable	-	2,481	828
Inventories (note 6)	1,459	1,383	436
Other current assets	1,030	1,305	929
	25,299	9,102	10,775
Non-current assets			
Long term investments	71	-	-
Property, plant and equipment (note 7)	21,154	23,805	22,281
Mineral rights (note 8)	20,719	1,970	1,758
Deferred income tax assets (note 14)	-	213	-
Total assets	67,243	35,090	34,814
Liabilities			
Current liabilities			
Trade payables	2,503	2,956	3,382
Income taxes payable	3,970	-	-
	6,473	2,956	3,382
Non-current liabilities			
Provisions (note 9)	1,429	1,375	457
Deferred income tax liabilities (note 14)	331	-	773
Total liabilities	8,233	4,331	4,612
Equity			
Share capital (note 10)	77,797	55,937	53,166
Contributed surplus	9,639	7,655	7,475
Accumulated other comprehensive income	1,445	1,471	-
Deficit	(29,871)	(34,304)	(30,439)
Total equity	59,010	30,759	30,202
Total liabilities and equity	67,243	35,090	34,814

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

Approved by the Board	**Director**	**Director**
	"Tim J. Ryan"	*"Alan R. McFarland"*

Excellon Resources Inc.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the year ended December 31, 2011 and 2010

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

	December 31, 2011	December 31, 2010
	$	$
Revenues	48,010	29,384
Cost of Sales (note 11)	(17,195)	(18,906)
	30,815	10,478
Corporate administrative expenses (note 11)	(8,405)	(5,842)
Exploration	(6,067)	(8,800)
Other expenses (note 11)	(5,065)	(1,164)
Income (loss) before financing and tax	11,278	(5,328)
Finance income	1	-
Finance costs	(32)	(31)
Net finance costs	(31)	(31)
Income (loss) before income tax	11,247	(5,359)
Income tax (note 14)	(6,814)	1,494
Net income (loss)	4,433	(3,865)
Other comprehensive income (loss)		
Unrealized gains on financial securities available for sale	22	-
Foreign currency translation differences	(48)	1,471
Total other comprehensive income (loss)	(26)	1,471
Total comprehensive income (loss)	4,407	(2,394)
Earnings (loss) per share:		
Basic	$ 0.02	$ (0.02)
Diluted	$ 0.02	$ (0.02)
Weighted average number of shares		
Basic	261,539,534	242,736,136
Diluted	263,327,008	249,013,444

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

Excellon Resources Inc.

Consolidated Statements of Changes in Equity
For the year ended December 31, 2011 and 2010

(in thousands of U.S. dollars)

	Share capital $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Total equity $
Balance - January 1, 2010	53,166	7,475	-	(30,439)	30,202
Net income (loss)	-	-	-	(3,865)	(3,865)
Total other comprehensive income (loss)	-	-	1,471	-	1,471
Total comprehensive income (loss)	-	-	1,471	(3,865)	(2,394)
Employee share options:					
Value of services recognized	1,082	180	-	-	1,262
Proceeds on issuing shares	1,689	-	-	-	1,689
Balance - December 31, 2010	55,937	7,655	1,471	(34,304)	30,759
Balance - January 1, 2011	55,937	7,655	1,471	(34,304)	30,759
Net income (loss)	-	-	-	4,433	4,433
Total other comprehensive income (loss)			(26)		(26)
Total comprehensive income (loss)	-	-	(26)	4,433	4,407
Employee share options:					
Value of services recognized	1,146	1,489	-	-	2,635
Proceeds on issuing shares	1,710	-	-	-	1,710
Share payment for acquisition (note 8)	18,400	694	-	-	19,094
Share payment for mineral rights (note 8)	855	-	-	-	855
Repurchased shares	(251)	(199)	-	-	(450)
Balance - December 31, 2011	77,797	9,639	1,445	(29,871)	59,010

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

Excellon Resources Inc.

Consolidated Statements of Cash Flow
For the year ended December 31, 2011 and 2010

(in thousands of U.S. dollars)

	December 31, 2011 $	December 31, 2010 $
Cash flow provided by (used in)		
Operating activities		
Net income (loss)	4,433	(3,865)
Adjustments for:		
Depletion, depreciation and amortization	2,499	2,532
Deferred income tax	544	(213)
Share-based compensation	2,635	1,262
Post-employment benefits	(628)	-
Rehabilitation provision - accretion	34	31
Rehabilitation provision - change of estimate	824	-
Write-down of property, plant and equipment	1,273	1,259
Unrealized loss on foreign intercompany loans	3,319	(263)
Changes in items of working capital:		
Trade receivables	1,407	2,133
Income taxes payable	6,451	(1,653)
Inventories	(76)	(947)
Other current assets	275	(376)
Trade payables	(453)	(426)
Net cash provided by (used in) operating activities	22,537	(526)
Investing activities		
Purchase of marketable securities	-	10
Purchase of property, plant and equipment	(4,145)	(4,159)
Net cash acquired on acquisition of Lateegra (note 8)	786	-
Net cash used in investing activities	(3,359)	(4,149)
Financing activities		
Proceeds on issuance of shares	1,710	1,689
Shares repurchased from market	(450)	-
Net cash provided by financing activities	1,260	1,689
Effect of exchange rate changes on cash and cash equivalents	(154)	480
Increase (decrease) in cash and cash equivalents	20,284	(2,506)
Cash and cash equivalents - Beginning of the year	1,978	4,484
Cash and cash equivalents - End of the year	22,262	1,978
Cash paid for income tax	1,144	1,771

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

1. GENERAL INFORMATION

Excellon Resources Inc. and its subsidiaries (together the Company or Excellon) is involved in the exploration, development and extraction of high-grade silver-lead-zinc metals in Mexico. Excellon is domiciled in Canada and incorporated under the laws of the province of British Columbia. The address of its principal office is 20 Victoria Street, Suite 900, Toronto, Ontario, M5C 2N8, Canada.

2. BASIS OF PRESENTATION

a. *Statement of compliance*

These consolidated financial statements are expressed in thousands of US dollars and have been prepared in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS as issued by the IASB. In these consolidated financial statements, the term Canadian generally accepted accounting principles ("Canadian GAAP") refers to Canadian GAAP before the adoption of IFRS.

These consolidated financial statements, including comparatives, have been prepared in accordance with IFRS applicable to the preparation of consolidated financial statements, including IFRS 1, "First-time Adoption of IFRS". Subject to certain transition elections disclosed in Note 5, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as at January 1, 2010 and throughout the current 2011 year and 2010 comparative periods, as if these policies had always been in effect. Note 5 provides reconciliations, descriptions and explanations of how the transition to IFRS has impacted the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's consolidated financial statements reported under Canadian GAAP for the year ended December 31, 2010.

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and expenses. See section c below for accounting estimates and judgments.

The consolidated financial statements have been prepared under the historical cost convention, except for marketable securities which are measured at fair value.

The policies applied in these consolidated financial statements are based on IFRS issued and effective as of December 31, 2011. The Board of Directors approved the statements on March 27, 2012.

b. Functional currency and change in presentation currency

The functional currency of the parent Company is Canadian dollars. Each entity in the Company determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Effective January 1, 2011, the Company changed its presentation currency to the US dollar ("USD"). The change in presentation currency is to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the mining industry. Prior to January 1, 2011, the Company presented its consolidated financial statements in the Canadian dollar ("CAD"). In making this change to the presentation currency, the Company followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates* and have applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency. In accordance with IAS 21, the financial statements for all years and periods presented have been translated to the new presentation currency as follows:

- All assets and liabilities have been translated from their functional currency into the new presentation currency at the beginning of the comparative period, January 1, 2010, using the opening exchange rate and retranslated at the closing rate at the date of each balance sheet;
- Income and expenses for each statement of comprehensive income presented have been retranslated at average exchange rates prevailing during each reporting period;
- Equity balances have been translated at the beginning of the comparative period, January 1, 2010, at the opening exchange rate on that date. Subsequently, equity transactions are translated at historical rates; and
- All resulting exchange differences have been recognized in other comprehensive income and accumulated as a separate component of equity (accumulated other comprehensive income).

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

c. Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The following areas involve a higher degree of judgement or are areas where assumptions and estimates are significant to the consolidated financial statements. Actual results may differ significantly from these estimates included in the consolidated financial statements.

i. Valuation of mining properties and other long lived assets

Mining properties and other long-lived assets are reviewed and evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Common indicators of impairment in the mining industry include:

- A significant deterioration in expected future commodity prices;
- A significant adverse movement in foreign exchange rates;
- A significant increase in production costs;
- A large cost overrun during the development and construction of a new mine;
- A significant increase in the expected cost of dismantling assets and restoring the site;
- A significant reduction in the mineral content of ore reserves/resources;
- Serious mine accidents;
- A significant increase in market interest rates; and
- Adverse changes in government regulations and environmental law, including a significant increase in the taxes payable by the mine.

As at December 31, 2011 the Company determined that there were no indicators of impairment in carrying values of mining properties or any other long lived assets or cash generating units (“CGU”).

ii. Useful economic life of property, plant and equipment

The cost less the residual value of each item of property, plant and equipment is amortized over its useful economic life. Amortization is charged to cost of production over the shorter of the estimated lives of the individual assets or the life of mine using the units-of-production method. Amortization commences when assets are available for use. Land is not amortized.

The assets useful lives, expected units-of-production and methods of amortization are reviewed and adjusted if appropriate at each fiscal year end.

iii. Decommissioning and site rehabilitation provision

The Company records any decommissioning and site rehabilitation obligation as a long-term liability in the period in which the related environmental disturbance occurs, based on the net present value of the estimated future costs (note 9). This obligation is adjusted at the end of each fiscal period to reflect the passage of time and changes in the estimated future costs underlying the obligation. In determining this obligation, management must make a number of assumptions about the amount and timing of future cash flows and discount rate to be used.

The undiscounted estimate of the asset retirement obligation ("ARO") has been discounted to its present value at a risk free rate which represents the 10 year Government of Canada bond rate and an estimate of the Company's pricing in the market to obtain debt. Assuming that all other variables remain constant, a one percent change in the discount rate would result in the liability change of approximately $110. The estimate also assumes a long term inflation rate. Assuming all other variables remain constant, a one percent change in the long term inflation rate would result in the liability change of approximately $30. Assuming all other variables remain constant, a 10% change in the undiscounted estimate of the ARO would result in the liability change of approximately $120.

iv. Calculation of share-based compensation expense

The amount expensed for stock-based compensation is based on the application of a recognized option valuation formula, which is highly dependent on the expected volatility of the Company's registered shares and the expected life of the options. The Company uses an expected volatility rate for its shares based on past stock trading data, adjusted for future expectations, and actual volatility may be significantly different. While the estimate of stock-based compensation can have a material impact on the operating results reported by the Company, it is a non-cash charge and as such has no impact on the Company's cash position or future cash flows.

v. Determination of reserves and resources

The Company uses the services of experts to estimate the indicated and inferred resources of its mineral properties in Mexico. These experts express an opinion based on certain technological and legal information as prepared by management as being current, complete and accurate as of the date of their calculations and in compliance with National Instrument 43-101. These estimated resources are used in the evaluation of potential impairment of asset carrying values, the useful lives of assets, amortization rates and the timing of cash flows.

vi. Income taxes

Income taxes are calculated using the liability method of tax accounting. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and on unclaimed losses carried forward and are measured using the substantially enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. Deferred tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, including forecasts, it is probable that they will be realized.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statements of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

a. *Consolidation*

i. Subsidiaries

Subsidiaries are entities controlled by the Company where control is achieved when the Company has the power to govern the financial and operating policies of the entity. Control is normally achieved through ownership, directly or indirectly, of more than 50 percent of the voting power. The Company owns directly and indirectly 100% of all the subsidiaries. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

ii. Transactions eliminated on consolidation

Intercompany transactions, balances, income and expenses are eliminated in preparing the consolidated financial statements.

b. *Segment reporting*

The Company has two reportable segments based on a geographical basis. During the year, the consolidated entity operated in Mexico and Canada.

The Mexican operation is principally engaged in the acquisition, exploration, evaluation, and development of mining properties. The Platosa property is in commercial production and is earning revenue through the sale of silver-lead concentrate and silver-zinc concentrate to a single customer that accounts for 100% of revenues.

The Canadian operations are principally engaged in the acquisition, exploration and evaluation of mining properties in Ontario and Quebec.

Non-current assets located at the corporate office in Canada are minor in relation to the total.

c. *Foreign currency transactions and translation*

i. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of income.

All foreign exchange gains and losses are presented in the statement of income within 'other expenses'.

ii. Translation

The results and financial position of all the Company entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each statement of income and comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- All resulting exchange differences have been recognized in other comprehensive income and accumulated as a separate component of equity in accumulated other comprehensive income.

d. Financial instruments

Financial assets and liabilities are recognized when the company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.
The Company's financial instruments primarily consist of cash and cash equivalents (classified as loans and receivables), trade receivable (classified as loans and receivables), trade payable (classified as other financial liabilities). The fair values of these financial instruments approximate their carrying values. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

Loans and receivables and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net income (loss).

Held for trading financial instruments are measured at fair value. All gains and losses are included in net income (loss) for the period in which they arise.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from remeasurement are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of income and are included in “other gains and losses (net)”. Available-for-sale investments are classified as non-current, unless an investment matures within twelve months, or management expects to dispose of it within twelve months.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

e. Cash and Cash equivalents

Cash and cash equivalents consist of cash on hand, bank deposits and highly liquid short-term investments with a maturity date of three months or less when acquired.

f. *Inventories*

Silver-lead and silver-zinc in concentrate and ore stockpiles are physically measured or estimated and valued at the lower of cost or net realizable value. Net realizable value is the estimated selling price, less estimated costs of completion and costs of selling final product.

Cost is determined by the weighted average method and comprises direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation and amortisation, incurred in converting materials into finished goods. The cost of production is allocated to joint products using a ratio of spot prices by volume at each month end. Separately identifiable costs of conversion of each metal are specifically allocated.

Materials and supplies are valued at the lower of cost or net realizable value. Any provision for obsolescence is determined by reference to specific items. A regular review is undertaken to determine the extent of any provision for obsolescence by comparing those item to their replacement costs.

When inventories have been written down to net realizable value, the Company makes a new assessment of net realizable value in each subsequent period. If the circumstances that caused the write-down no longer exist, the remaining amount of the write-down is reversed.

g. *Property, plant and equipment*

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment charges.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate assets (major components) of property, plant and equipment.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation is recorded over the useful life of the asset, or over the remaining life of the mine, if shorter, as follows:

- Mining properties – on a units-of-production basis;
- Associated mining equipment – 3-10 years on a straight line basis;
- Buildings – 20 years on a straight line basis; and
- Processing equipment – 4-8 years on a straight line basis.

Depreciation charges on a unit-of-production basis are based on indicated and inferred mineral resources.

The method of amortization, estimates of residual values and useful lives are reassessed at least at each financial year-end, and any change in estimate is taken into account in the determination of future depreciation charges.

h. *Exploration and evaluation expenditures*

Acquisitions of mineral rights are capitalized. Subsequent exploration and evaluation costs related to an area of interest are expensed as incurred on a project-by-project basis pending determination of indicated resources. Upon determination of indicated resources, further development costs are capitalized.

The capitalized costs are presented as either tangible or intangible development assets according to the nature of the assets acquired. When a licence is relinquished or a project is abandoned, the related costs are immediately recognized in profit or loss.

i. *Development expenditure*

Development expenditures incurred by or on behalf of the Company are accumulated separately for each area of interest in which an indicated resource has been identified. Such expenditures comprise costs directly attributable to the construction of a mine and the related infrastructure.

General and administrative costs are allocated to a development asset only to the extent that those costs can be related directly to development activities in the relevant area of interest.

Once a development decision has been taken, the development expenditure is classified under property, plant and equipment as ''development properties''.

A development property is reclassified as a "mining property'' at the end of the commissioning phase, when the mine is capable of operating in the manner intended by management.

No depreciation is recognized in respect of development properties until they are reclassified as "mining properties''.

Each development property is tested for impairment in accordance with the policy in note 3 m ii *Impairment*.

j. *Mining properties*

When further development expenditures are incurred in respect of a mining property after the commencement of production, such expenditures are carried forward as part of the mining property when it is probable that additional future economic benefits associated with the expenditure will flow to the consolidated entity. Otherwise such expenditures are classified as a cost of production.

Depreciation is charged using the units-of-production method. The units-of-production basis results in a depreciation charge proportional to the depletion of indicated and inferred resources.

Mine properties are tested for impairment in accordance with the policy in note 3 *m* ii *Impairment*.

k. *Decommissioning and site rehabilitation provision*

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation is attributable to development when the asset is installed or the environment is disturbed at the production location. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects the current market assessments of the time value of money. When the liability is initially recognized, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining asset.

The periodic unwinding of the discount applied in establishing the net present value of provisions due to the passage of time is recognized in the consolidated statement of income as a finance cost. Changes in the rehabilitation estimate attributable to development will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur.

l. *Mineral Rights*

Mineral rights are carried at cost and amortized using a units-of-production method based on the resources that exist in the location that has access to such rights.

Methods of amortization and estimated useful lives are reassessed annually and any change in estimate is taken into account in the determination of future amortization charges.

Mineral rights are tested for impairment in accordance with the policy in note 3 m ii *Impairment*.

m. *Impairment*

i. <u>Financial assets</u>

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

ii. <u>Non-financial assets</u>

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset or CGU recoverable amount is estimated. Recoverability of assets or CGU (mine operation) to be held and used are measured by a comparison of the carrying value of the asset to the recoverable amount, which is value in use, and is determined based on the future discounted net cash flows expected to be generated by the asset.

In assessing recoverable amounts, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or the CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of the CGU are allocated to reduce the carrying amount of long-lived assets in the unit on a pro rata basis.

Non-financial assets that have been impaired in prior periods are tested for possible reversal of impairment whenever events or changes in circumstances indicate that the impairment has reversed. If the impairment has reversed, the carrying amount of the asset is increased to its recoverable amount but not beyond the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior periods. A reversal of an impairment loss is recognized into earnings immediately.

n. Future employee Benefits

Employees of the Company's Mexican mines are entitled by local labor laws to employee leaving indemnities, generally based on each employee's length of service, employment category and remuneration.

The cost of these retirement benefits is determined using the projected unit credit method. Current service cost and any past service cost are recognized in the same line item in the statements of income as the related compensation cost. Changes in actuarial assumptions used to determine the accrued benefit obligation are recognized in full in the period in which they occur, in the statements of income.

The most significant assumptions used in accounting for post employment benefits are the discount rate, the mortality and the life of mine assumptions. The discount rate is used to determine the net present value of future liabilities. Each year, the unwinding of the discount on those liabilities is charged to the Company's income statement as the interest cost. The life of mine and mortality assumptions are used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities. The values attributed to the liabilities are assessed in accordance with the advice of independent qualified actuaries.

o. *Current and deferred income tax*

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of income and comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case the tax is also recognized in other income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries except in the case of a subsidiary where timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined on a non discount basis using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Company recognizes neither the deferred tax asset regarding the temporary difference on the rehabilitation liability, nor the corresponding deferred tax liability regarding the temporary difference on the rehabilitation asset.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

i. Royalties

Royalties, resource rent taxes and revenue-based taxes are accounted for under taxes when they have the characteristics of an income tax. This is considered to be the case when they are imposed under Government authority and the amount payable is based on taxable income – rather than based on quantity produced or as a percentage of revenue – after adjustment for temporary differences. For such arrangements, current and deferred tax is provided on the same basis as described above for other forms of taxation. Obligations arising from royalty arrangements that do not satisfy these criteria are recognized as current provisions and included in cost of sales. The royalties incurred by the Company are considered not to meet the criteria to be treated as part of income tax.

p. *Share-based payments*

i. Share-based payment transactions

Employees (including directors and senior executives) of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the Company, as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

ii. Equity-settled transactions

The costs of equity-settled transactions with employees are measured by reference to the fair value at the date on which they are granted using the Black-Scholes option-pricing model.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“the vesting date”). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company’s best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in contributed surplus. No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

q. Revenue recognition

Company policy requires all production to be sold under contract. Revenue is only recognized on individual shipments when persuasive evidence exists that the following criteria are satisfied:

- The significant risks and rewards of ownership of the product have been transferred to the buyer;
- Neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold has been retained;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the sale will flow to the Company; and
- The costs incurred or to be incurred in respect of the sale can be measured reliably.

Satisfaction of these conditions depends on the terms of trade with individual customers. Generally the risks and rewards are considered to have transferred to the customer when title and insurable risk of loss transfer.

Certain products are sold on a ‘provisional pricing’ basis where the sale price received by the group is subject to a final adjustment at the end of a period that may be up to 60 days after delivery to the customer. The final sale price is based on the market price on the quotational date in the contract of sale. Sales are initially recognized when the revenue recognition criteria have been satisfied, using market prices at that date. At each reporting date the provisionally priced shipment is marked to market based on the forward selling price for the quotational point specified in the contract until that point is reached. Revenue is only recognized on this basis where the forward selling price can be reliably measured.

Many of the Company's sales are subject to an adjustment based on inspection of the shipment by the customer. In such cases, revenue is recognized based on the group's best estimate of the grade at the time of shipment, and any subsequent adjustments are recorded against revenue when advised.

r. *Earnings per share*

Basic earnings per share ("EPS") is calculated by dividing the net income (loss) for the period attributable to equity owners of Excellon by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. Excellon's potentially dilutive common shares comprise stock options granted to employees and warrants.

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

IFRS 9, Financial Instruments was issued by the IASB and will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely. Requirements for financial liabilities are included in IFRS 9 and they largely carry forward existing requirements from IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income (loss). IFRS 9 is effective for annual periods beginning on or after

January 1, 2015. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRS 10, Consolidated Financial Statements was issued by the IASB to replace IAS 27, Consolidated and Separate Financial Statement and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

IFRS 11, Joint Arrangements supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities - Non-monetary Contributions by Venturers. IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 11 on its consolidated financial statements.

IFRS 12 Disclosures of Interests in Other Entities was issued by the IASB to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 12 on its consolidated financial statements.

IFRS 13, Fair Value Measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 13 on its consolidated financial statements.

IAS 19, Employee Benefits, has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with the company's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short-term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.

IFRS 20, Stripping Costs in the Production Phase of a Surface Mine, provides guidance on the accounting for stripping costs in the production phase of surface mining when two benefits accrue to the entity from the stripping activity: i) inventory produced and ii) improved access to ore. Stripping costs associated with the former should be accounted for as a current production cost in accordance with IAS 2, Inventories. The latter should be accounted for as an addition to or enhancement of an existing asset. IFRS 20 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 20 on its consolidation financial statements.

The company plans to adopt these IFRS accounting standards when these standards become effective, if applicable.

5. TRANSITION TO IFRS

The effect of the Company's transition to IFRS is summarized in this note as follows:

a. Transition elections

b. Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

a. *Transition elections*

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

(in thousands of US Dollars)

	As described in note b.
Cumulative translation adjustment	i.
Rehabilitation provision	ii.
Business combinations	iii.
Share based payments	iv.
Cash flows	v.

b. Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

Equity	**Note**	**Dec 31, 2010 $**	**Jan 1, 2010 $**
Canadian GAAP equity reported (CAD)		30,766	34,259
CTA effect for change in presentation currency	i	-	(1,505)
CTA effect for change from integrated to self sustaining operation	i	-	(2,554)
Rehabilitation provision	ii	101	65
Rehabilitation cost	ii	(108)	(63)
Equity as reported under IFRS		30,759	30,202

Comprehensive income (loss)	**Note**	**Dec 31, 2010 $**
As reported under Canadian GAAP (CAD)		(6,438)
Increase in other comprehensive income for		
CTA effect for change in presentation currency		1,471
CTA effect for change from integrated to self	i	
sustaining operation	i	2,554
		4,025
Decrease (increase) in net income for:		
CTA effect for change in presentation currency	i	132
Decommissioning and site rehabilitation impact	ii.	(9)
Share based payment amortization	iv.	(104)
		19
Increase (decrease) in other comprehensive income		-
As reported under IFRS		(2,394)

i. On transition to IFRS, the Company assessed that the functional currency for its Mexican operation was the local currency. In addition the company changed the presentation currency from Canadian Dollars to US Dollars. In accordance with IFRS 1 (first time adoption of IFRS) transitional provisions, the Company has elected to reset the cumulative translation adjustment account, which includes gains and losses arising from the translation of foreign operations to the Company's presentation currency, to zero at the date of transition to IFRS.

ii. Similar to Canadian GAAP, when a decommissioning and site rehabilitation provision (asset retirement obligation) is established, the Company is required to set up a corresponding asset and depreciate it over the remaining useful life of the asset to which the rehabilitation provision relates. Any changes in the rehabilitation provision are added to or subtracted from the cost of the asset to which the obligation relates. In accordance with IFRS 1 transitional provisions, the Company elected to take a simplified approach to calculate and record the asset related to the rehabilitation provision in the opening IFRS consolidated balance sheets. The rehabilitation provision on the transition date calculated in accordance with IFRS is discounted back to the date when the provision first arose, at which date the corresponding asset is set up. This asset is then depreciated to its carrying amount at the transition date.

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

Over time the provision is impacted by the unwinding of the discount rate used to determine its carrying value. This unwinding amount is referred to as accretion and is recognized in the statements of income as a finance cost. Likewise the rehabilitation cost is amortized.

The rehabilitation provision calculated at December 31, 2010 has decreased the carrying amount of the previous asset retirement obligation recognized under Canadian GAAP by $101 and the deficit has been reduced. The corresponding asset has also decreased by $108 net of depreciation and the deficit has been charged. The total impact on comprehensive income net of the foreign exchange difference was expense of $7.

iii. In accordance with IFRS 1 transitional provisions, the Company elected to apply IFRS relating to business combinations prospectively from January 1, 2010. There were no adjustments arising from this election as all acquired assets and liabilities conformed to IFRS.

(in thousands of US Dollars)

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

Subsequent to the transition date, increases in the amortization of the fair value of vested stock options were required under IFRS in the amount of $104 at December 31, 2010.

v. The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by the company except that, under IFRS, cash flows relating to interest are classified in a consistent manner as operating, investing or financing each period. Under Canadian GAAP, cash flows relating to interest payments were classified as operating.

6. INVENTORIES

	Dec 31, 2011 $	Dec 31, 2010 $	Jan 1, 2010 $
Ore	450	76	216
Concentrate	-	436	-
Production spares	1,009	871	220
	1,459	1,383	436

(in thousands of US Dollars)

7. PROPERTY, PLANT AND EQUIPMENT

	Mining properties $	Mining equipment $	Processing equipment $	Assets under construction $	Total $
At January 1, 2010					
Cost	21,405	4,928	6,481	3,698	36,512
Accumulated depreciation	(12,027)	(1,799)	(405)	-	(14,231)
Net book value	9,378	3,129	6,076	3,698	22,281
Year ended December 31, 2010					
Opening net book value	9,378	3,129	6,076	3,698	22,281
Additions	335	3,811	13	-	4,159
Depreciation	(669)	(1,104)	(578)	-	(2,351)
Write-down (1)	(1,259)	-	-	-	(1,259)
Exchange differences	92	314	299	270	975
Closing net book value	7,877	6,150	5,810	3,968	23,805
At January 1, 2011					
Cost	20,443	8,778	7,127	3,968	40,316
Accumulated depreciation	(12,566)	(2,628)	(1,317)	-	(16,511)
	7,877	6,150	5,810	3,968	23,805
Year ended December 31, 2011					
Opening net book value	7,877	6,150	5,810	3,968	23,805
Additions	1,957	837	-	1,351	4,145
Reclassification	367	280	1,784	(2,431)	-
Disposals	-	(41)	-	(28)	(69)
Depreciation	(625)	(841)	(865)	-	(2,331)
Write-down (1)	-	-	-	(1,273)	(1,273)
Exchange differences	(1,322)	(945)	(36)	(820)	(3,123)
Closing net book value	8,254	5,440	6,693	767	21,154
At December 31, 2011					
Cost	20,584	8,636	8,814	767	38,801
Accumulated depreciation	(12,330)	(3,196)	(2,121)	-	(17,647)
	8,254	5,440	6,693	767	21,154

(in thousands of US Dollars)

(1) Write-down

The Company recognized a write-down of $1,273 related to mill construction at the Platosa mine. The construction of the mill at Platosa has been postponed and the carrying value of the mill equipment has been reduced to its recoverable amounts.

In 2010, the Company decided to cease keeping the mine on care and maintenance at Miguel Auza. Accordingly, mineral property in an amount of $1,259 was written-down.

8. MINERAL RIGHTS

	Minera (Mexico) $	**Beschefer (1) (Canada) $**	**Desantis (1) (Canada) $**	**Total $**
At January 1, 2010				
Cost	2,221	-	-	2,221
Accumulated depreciation	(463)	-	-	(463)
Net book value	1,758			1,758
Year ended December 31, 2010				
Opening net book value	1,758	-	-	1,758
Depreciation	(181)	-	-	(181)
Exchange differences	393	-	-	393
Closing net book value	1,970	-	-	1,970
At December 31, 2010				
Cost	2,547	-	-	2,547
Accumulated depreciation	(577)	-	-	(577)
	1,970	-	-	1,970
Year ended December 31, 2011				-
Opening net book value	1,970	-	-	1,970
Additions (1)	-	8,163	10,960	19,123
Depreciation	(168)	-	-	(168)
Exchange differences	(206)	-	-	(206)
Closing net book value	1,596	8,163	10,960	20,719
At December 31, 2011				
Cost	2,255	8,163	10,960	21,378
Accumulated depreciation	(659)	-	-	(659)
	1,596	8,163	10,960	20,719

(in thousands of US Dollars)

(1) On August 5, 2011 the Company completed the purchase of the net assets of Lateegra Gold Corp. ("Lateegra"). An aggregate of 50,056,999 common shares of Lateegra were exchanged for 27,030,787 common shares of Excellon representing an exchange ratio of one Lateegra share being equal to 0.54 Excellon share. The fair value of the net assets acquired were as follows:

	August 5, 2011
	$
Cash and cash equivalents	1,191
Trade receivables	127
Other current assets	38
Long term investments	51
Mineral rights	18,266
Trade payables	(174)
Net assets acquired	19,499

Acqusition cost is comprised of the following	
	$
Share capital issuance	(18,400)
Options and warrants issuance	(694)
Legal and professional fees	(405)
	(19,499)

(in thousands of US Dollars)

9. PROVISIONS

	Post - retirement benefits (1) $	Rehabilitation provision $	Total $
At January 1, 2010			
Opening balance	109	348	457
Year ended December 31, 2010			
Opening balance	109	348	457
Change in estimate	861	20	881
Accretion for the period	-	31	31
Exchange differences	17	(11)	6
Closing balance	987	388	1,375
Year ended December 31, 2011			
Opening balance	987	388	1,375
Change in estimate	(628)	824	196
Accretion for the period	-	34	34
Exchange differences	(131)	(45)	(176)
Closing Balance	228	1,201	1,429

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

Key financial assumptions used in the above estimate include an annual discount rate of 7%, annual salary and minimum wage increase rate of 3.5% and the life of the mine of ten years.

10. SHARE CAPITAL

	Number of shares (000s)	$
Year ended December 31,2010		
Opening balance at January 1, 2010	241,414	53,166
Shares issued on exercise of compensation options	3,881	1,871
Shares issued on exercise of stock options	2,578	900
Balance at December 31, 2010	247,873	55,937
Year ended December 31, 2011		
Opening balance at January 1, 2011	247,873	55,937
Shares issued on exercise of stock options	3,165	2,856
Shares issued on Lateegra acquisition (note 8)	27,031	18,400
Share issued on Beschefer agreement	1,080	855
Share purchase buyback	(852)	(251)
Balance at December 31, 2011	278,297	77,797

SHARE BASED PAYMENTS

Share option program (equity-settled)

The Company has a share option program that entitles directors, officers, employees and consultants to purchase shares in the Company. Under the program, the Company may grant options for up to 10% of the common shares issued and outstanding. Under the program, 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.

(in thousands of US Dollars)

Disclosure of share option program

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

	2011		2010	
	Weighted Average Exercise Price (CAD)	**Options**	**Weighted Average Exercise Price (CAD)**	**Options**
Outstanding at January 1	1.18	12,844,272	1.00	12,721,312
Granted (1)	0.67	6,198,400	0.94	3,095,000
Exercised	0.53	(3,165,000)	0.27	(2,578,333)
Expired	1.54	(1,669,385)	1.93	(227,540)
Forfeited	0.90	(443,335)	0.56	(166,167)
Outstanding at December 31	1.07	13,764,952	1.18	12,844,272
Exercisable at December 31	1.15	10,818,270	1.26	10,280,928

The options outstanding at December 31, 2011 have an exercise price in the range of CAD $0.19 to CAD $5.21 (2010 - CAD $0.19 to CAD $5.21) and a weighted average remaining contractual life of 2.69 years (2010 - 2.91 years).

The weighted average share price at the date of exercise for share options exercised in 2011 was CAD $0.94 (2010 - CAD $0.83).

(1) Of the amount of stock options granted in 2011, a total of 3,335,000 are subject to shareholder approval.

Inputs for measurement of grant date fair values

The grant date fair value of the share option program was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share option program are the following:

Weighted average	**2011**	**2010**
Fair value at grant date	$ 0.42	$ 0.68
Share price at grant date	$ 0.79	$ 0.94
Exercise price	$ 0.67	$ 0.94
Risk free interest rate	1.58%	2.21%
Expected life of options in years	2.92	5.00
Expected volatility	81.04%	94.85%
Expected dividend yield	0.00%	0.00%
Estimated forfeiture rate	2.99%	2.99%

(in thousands of US Dollars)

Share-based compensation expense

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

	2011 $	2010 $
Share options granted in 2009	132	395
Share options granted in 2010	687	867
Share options granted in 2011	1,816	-
	2,635	1,262

WARRANTS

During the year, the Company exchanged Excellon warrants in exchange for Lateegra warrants at an exchange ratio of one Lateegra warrant being equal to 0.54 Excellon warrants. There were no warrants outstanding at December 31, 2010.

Disclosure of warrants

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

	2011	
	Weighted Average Exercise Price (CAD)	Warrants
Outstanding at January 1	-	-
Granted during the period	0.86	6,244,650
Expired during the period	0.92	(2,315,988)
Outstanding at December 31	0.82	3,928,662
Exercisable at December 31	0.82	3,928,662

The warrants outstanding at December 31, 2011 have an exercise price in the range of CAD $0.75 to CAD $0.93 and a weighted average remaining contractual life of 0.18 years.

(in thousands of US Dollars)

Inputs for measurement of grant date fair values

The grant date fair value of the warrants was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the warrants are the following:

Weighted average		**2011**
Fair value at issue date	$	0.07
Share price at issue date	$	0.67
Exercise price	$	0.86
Risk free interest rate		1.47%
Expected life of warrants in years		0.46
Expected volatility		68.51%
Expected dividend yield		0.00%
Estimated forfeiture rate		2.99%

11. Expenses by Nature

Cost of sales is comprised of the following:

	2011	**2010**
	$	**$**
Direct mining and milling costs (1)	14,241	15,987
Depletion, depreciation and amortization	2,411	2,532
Royalties	543	387
Total cost of sales	17,195	18,906

(1) Cost of sales consists of direct mining and milling costs; which include personnel, general and administrative, fuel and electricity, maintenance and repair costs as well as, operating supplies, external services, third party smelting, refining and transport fees.

(in thousands of US Dollars)

Corporate administrative expenses consist of the following:

	2011	2010
	$	$
Office and overhead costs	2,672	1,751
Salaries and wages	3,033	2,697
Share based compensation	2,474	1,114
Depletion, depreciation and amortization	88	106
Other	138	174
Corporate administrative expenses	8,405	5,842

Other expenses consist of the following:

	2011	2010
	$	$
Write-down of long term assets	1,278	1,259
Foreign exchange (gains) losses	3,787	(95)
Other expenses	5,065	1,164

12. COMPENSATION OF KEY MANAGEMENT

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

	2011	2010
	$	$
Salaries and short-term employee benefits	2,272	1,648
Share-based payments	1,656	1,237
	3,928	2,885

13. RELATED PARTIES

An officer of the Company is a partner in a firm that provides legal services to the Company. During the year, the Company incurred legal services of $162 (2010 – $176) with an outstanding payable balance of $30 at December 31, 2011 (December 31, 2010 – $7).

(in thousands of US Dollars)

14. INCOME TAX

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 tax as a result of the following:

	December 31, 2011 $	December 31, 2010 $
Statutory tax rates	28.25%	31.00%
Income taxes (recovery) computed at the statutory rates	3,177	(1,626)
Non-deductible items	773	(558)
Change in tax benefit not recognized	2,283	3,602
Foreign tax differentials, rate changes and other	581	(2,912)
Provision for income taxes (recovery)	6,814	(1,494)

The enacted or substantially enacted tax rate in Canada (28.25% in 2011) and Mexico (31% in 2011) where the company operates is applied in the tax provision calculation. The Canadian tax rate decreased from 31% in 2010 to 28.25% in 2011 due to reductions in the enacted Federal and Ontario rates.

Provision for income taxes consists of the following:

	December 2011 $	December 2010 $
Current income taxes (recovery)	6,270	(508)
Deferred income taxes (recovery)	544	(986)
	6,814	(1,494)

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

(in thousands of US Dollars)

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Prepaid expenses, deposits and other	364	294	-
Deferred income and other	(34)	(81)	(734)
Accrued revenue	(661)	-	-
Prepaid expenses, deposits and other	-	-	(39)
Net deferred income tax assets (liabilities)	(331)	213	(773)

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

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Non-capital losses carried forward	51,528	46,985	34,173
Capital losses	5,703	5,581	5,581
Resource related deductions	9,335	8,297	9,303
Share issuance costs	874	1,013	2,411
Property, plant and equipment	8,489	10,421	6,570
Prepaid expenses, deposits and other	2,110	1,213	596
	78,039	73,510	58,634

(in thousands of US Dollars)

As at December 31, 2011, the Company has non-capital losses to be carried forward and applied against taxable income of future years. The non-capital losses have expiry dates as follows:

	December 31, 2011	**December 31, 2010**
	$	$
2012	172	176
2013	24	25
2014	2,001	883
2015	460	-
2016	2,643	2,643
2017	6,861	6,861
2018	11,587	11,587
2019	485	485
2020 and thereafter	27,295	24,325
	51,528	46,985

As at December 31, 2011, the Company has Canadian capital losses of $11,405 (2010 - $11,162) that may be carried forward indefinitely and applied against capital gains of future years.

As a December 2011, $nil (2010 - $nil) was recognized as a deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Company's subsidiaries as the Company has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future; and the investments are not held for resale and are expected to be recouped by continued use of these operations by the subsidiaries. The amount of temporary differences not booked for these unremitted earnings at December 31, 2011 is $21,425 (2010 - $18,823).

15. FINANCIAL INSTRUMENTS

Fair Values of non-derivative financial instruments

All financial assets and financial liabilities, other than derivatives, are initially recognized at the fair value of consideration paid or received, net of transaction costs as appropriate, and subsequently carried at fair value or amortized cost, as indicated in the tables below.

(in thousands of US Dollars)

The financial assets and liabilities are presented by class in the following table at their carrying values, which generally approximate to the fair values due to their short period to maturity:

	Dec 31, 2011 $	Dec 31, 2010 $	Jan 1, 2010 $
Financial assets			
Loans and receivables			
Cash and cash equivalents	22,262	1,978	4,484
Trade receivables	548	1,955	4,088
Fair value through profit and loss			
Marketable securities	-	-	10
Available for sale investments			
Long term investments	71	-	-
	22,881	3,933	8,582
Financial liabilities			
Other liabilities			
Trade payables	2,503	2,956	3,382
	2,503	2,956	3,382

Fair Value Hierarchy

The Company values financial instruments carried at fair value using quoted market prices, where available. Quoted market prices represent a Level 1 valuation. When quoted market prices are not available, the Company maximizes the use of observable inputs within valuation models. When all significant inputs are observable, the valuation is classified as Level 2. Valuations that require the significant use of unobservable inputs are considered Level 3.

The Company had no level 3 instruments for the years ended December 31, 2011 and 2010 or at January 1, 2010

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

Credit risk is the risk of unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash and cash equivalents. Management believes the credit risk on cash and cash equivalents is very low since the Company's cash and cash equivalents balance are held at large international financial institutions with strong credit ratings.

The Company is exposed to credit risk from its customer, 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. In addition, the company is obligated to make annual payments of US $532 under a surface rights lease with the Ejido La Sierrita. These annual payments are subject to a CPI adjustment and the final payment is in 2037.

Currency risk

The Mexican peso (MXN) and the Canadian dollar are the functional currencies of the Company and as a result currency exposures arise from transactions and balance in currencies other than the functional currencies. The Company's potential currency exposures comprise:

- translational exposure in respect of non-functional currency monetary items

Translational exposure in respect of non-functional currency monetary items

Monetary items, including financial assets and liabilities, denominated in currencies other than the functional currency of an operation are periodically revalued to the functional currency equivalents as at that date, and the associated unrealized gain or loss is taken to the income statement to reflect this risk.

The principal non-functional currency to which the Company is exposed is the United States dollar (USD). Based on the Company's net financial assets and liabilities in USD as at December 31, 2011, a weakening of the USD against the MXN and CAD functional currencies by 1% with all other variables held constant, would increase/(decrease) net loss and equity by approximately $100.

Transactional exposure in respect of non-functional currency expenditure and revenues

Certain operating and capital expenditures are is incurred by some operations in currencies other than their functional currency. To a lesser extent, certain sales revenue is earned in currencies other than the functional currency of operations, and certain exchange control restrictions may require that funds be maintained in currencies other than the functional currency of the operation.

At December 31, 2011, there are no forward exchange contracts outstanding to manage short-term foreign currency cash flows relating to operating activities.

Commodity price risk

The nature of the Company's operations results in exposure to fluctuations in commodity prices. Management continuously monitors commodity prices of silver, lead and zinc.

The Company is particularly exposed to the risk of movements in the price of silver. Declining market prices for silver could have a material effect on the Company's profitability, and the Company's policy is not to hedge its exposure to silver. The London Silver Spot price average, in USD per ounce, was $35.12 in 2011 (2010: $20.20). The Company estimates that an increase (decrease) in the commodity prices by 10% in 2011 with all other variables held constant would have resulted in an increase (decrease) in net income of approximately $6,000.

Interest rate risk

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

Economic dependence

The Company`s sole customer is Consorcio Minero de Mexico Cormin Mex S.A. de C/V (a subsidiary within the Trafigura group of companies) ("Trafigura") accounting for 100% of sales of $48,010 (December 31, 2010 - $29,384). An amount of $138 is included in the trade receivables from Trafigura as at December 31, 2011 (December 31, 2010 - $1,732; January 1, 2010 - $3,882).

(in thousands of US Dollars)

16. CAPITAL MANAGEMENT

The Company's objectives of capital management are intended to safeguard the entity's ability to continue as a going concern and to continue the exploration and extraction of ore from its mining properties.

The capital of the Company consists of the items included in shareholders' equity. Risk and capital management are monitored by the board of directors. The Company manages the capital structure and makes adjustments depending on economic conditions. Funds have been primarily secured through issuances of equity capital. The Company invests all capital that is surplus to its immediate needs in short-term, liquid and highly rated financial instruments, such as cash and other short-term deposits, all held with major financial institutions. Significant risks are monitored and actions are taken, when necessary, according to the Company's approved policies.

17. SEGMENT REPORTING

The Chief Operating Decision Maker (CODM) is the Company's Board of Directors. The CODM monitors the operating results of segments separately in order to allocate resources between segments and to assess performance.

	Canada		Mexico	
	Dec 31, 2011 $	Dec 31, 2010 $	Dec 31, 2011 $	Dec 31, 2010 $
Property, plant and equipment	44	118	20,482	23,687
Capital expenditures	(19)	(24)	(3,723)	(4,135)
Mineral Rights	19,123	-	1,596	1,970
Total assets	30,039	1,457	37,204	33,633
Revenue	-	-	48,010	29,384
Cost of sales	-	-	(17,195)	(18,906)
Corporate Administrative expenses	(8,405)	(5,842)	-	-
Exploration	(858)	-	(5,209)	(8,800)
Other expenses	(280)	(1,640)	(4,785)	476
Net Finance costs	-	-	(31)	(31)
Income tax	43	(91)	(6,857)	1,585
Net income (loss)	(9,500)	(7,573)	13,933	3,708

18. SUBSEQUENT EVENTS

Subsequent to the year end, the Company issued 1,080,000 common shares valued at $648 as the final instalment for a 100% interest in the mineral rights of the Beschefer property. The property is subject to a 1 to 2% net smelting royalty to the Optionors.

Subsequent to year end, the Company has repurchased 1,515,500 of its own common shares for $936 under a normal course issuer bid program that expires November 30, 2012.

In March 2012, the Company invested $5 million in the Sprott Physical Silver Trust to hold units reflecting an underlying investment in 134,732 ounces of silver.