EXCELLON

Excellon Resources Inc.

Consolidated Financial Statements

December 31, 2012
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, 2012, 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, Licensed Public Accountants. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

(Signed) "*Peter Crossgrove*"

Chief Executive Officer

(Signed) "*Rupy Dhadwar*"

Chief Financial Officer

March 26, 2013

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March 26, 2013

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, 2012 and 2011 and the Consolidated Statements of Income and Comprehensive Income, Consolidated Statements of Changes in Equity, and the Consolidated Statements of Cash Flow for the years ended December 31, 2012 and 2011, and the related notes, collectively referred to as the 'consolidated 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 (IFRS), 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 audit 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 audit 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, 2012 and 2011 and its financial performance and its cash flows for the years then ended in accordance with IFRS.

(Signed) "PricewaterhoouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

Excellon Resources Inc.

Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	December 31, 2012 $	December 31, 2011 $
Assets		
Current assets		
Cash and cash equivalents	1,369	22,262
Marketable securities (note 5)	4,152	-
Trade receivables	5,467	548
Income taxes receivable	3,122	-
Inventories (note 6)	2,022	1,459
Other current assets	1,555	1,030
	17,687	25,299
Non-current assets		
Long term investments	20	71
Property, plant and equipment (note 7)	20,972	21,154
Mineral rights (note 8)	24,405	20,719
Deferred income tax assets (note 14)	8,059	-
Total assets	71,143	67,243
Liabilities		
Current liabilities		
Trade payables	2,377	2,503
Income taxes payable (note 14)	-	3,970
	2,377	6,473
Non-current liabilities		
Provisions (note 9)	1,637	1,429
Deferred income tax liabilities (note 14)	-	331
Total liabilities	4,014	8,233
Equity		
Share capital (note 10)	77,453	77,797
Contributed surplus	9,329	9,639
Accumulated other comprehensive income	1,810	1,445
Deficit	(21,463)	(29,871)
Total equity	67,129	59,010
Total liabilities and equity	71,143	67,243

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

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

Excellon Resources Inc.

Consolidated Statements of Income and Comprehensive Income
For the year ended December 31, 2012 and 2011

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

	December 31, 2012 $	December 31, 2011 $
Revenues	36,273	48,010
Cost of Sales (note 11a)	(19,189)	(17,195)
	17,084	30,815
Corporate administrative expenses (note 11b)	(7,338)	(8,405)
Exploration	(9,907)	(6,067)
Other income (expenses) (note 11c)	777	(5,065)
Income before financing and tax	616	11,278
Finance income	18	1
Finance costs	(110)	(32)
Net finance costs	(92)	(31)
Income before income tax	524	11,247
Income tax recovery (expense) (note 14)	7,884	(6,814)
Net income	8,408	4,433
Other comprehensive income (loss)		
Unrealized gain (loss) on available for sale securities	(51)	22
Foreign currency translation differences	416	(48)
Total other comprehensive income (loss)	365	(26)
Total comprehensive income	8,773	4,407

	December 31, 2012	December 31, 2011
Earnings per share		
Basic	$ 0.03	$ 0.02
Diluted	$ 0.03	$ 0.02
Weighted average number of shares		
Basic	276,826,514	261,539,534
Diluted	277,447,537	263,327,008

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, 2012 and 2011

(in thousands of U.S. dollars)

	Share capital $	Contributed surplus $	Accumulated other comprehensive income $	Deficit $	Total equity $
Balance - January 1, 2011	55,937	7,655	1,471	(34,304)	30,759
Net income	-	-	-	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
Balance - January 1, 2012	77,797	9,639	1,445	(29,871)	59,010
Net income	-	-	-	8,408	8,408
Total other comprehensive income (loss)	-	-	365	-	365
Total comprehensive income (loss)	-	-	365	8,408	8,773
Employee share options:					
Value of services recognized	29	1,100	-	-	1,129
Proceeds on issuing shares	42	-	-	-	42
Share payment for mineral rights	1,062	-	-	-	1,062
Repurchased shares	(1,477)	(1,410)	-	-	(2,887)
Balance - December 31, 2012	77,453	9,329	1,810	(21,463)	67,129

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, 2012 and 2011

(in thousands of U.S. dollars)

	December 31, 2012 $	December 31, 2011 $
Cash flow provided by (used in)		
Operating activities		
Net income for the year	8,408	4,433
Adjustments for:		
Depletion, depreciation and amortization	2,893	2,499
Deferred income tax	(8,390)	544
Share-based compensation	1,129	2,635
Post-employment benefits	59	(628)
Rehabilitation provision - accretion	75	34
Rehabilitation provision - change of estimate	(34)	824
Unrealized loss on marketable securities	848	-
Unrealized loss (gain) on foreign intercompany loans	(1,457)	3,319
Write-down of property, plant and equipment	100	1,273
Changes in items of working capital:		
Trade receivables	(4,919)	1,407
Income taxes payable	(7,092)	6,451
Inventories	(563)	(76)
Other current assets	(525)	275
Trade payables	(126)	(453)
Net cash provided by (used in) operating activities	(9,594)	22,537
Investing activities		
Purchase of marketable securities	(5,000)	-
Purchase of property, plant and equipment	(2,777)	(4,145)
Proceeds from sale of processing equipment	1,744	-
Purchase of royalty interests	(2,400)	-
Purchase of mineral rights	(390)	-
Net cash acquired on acquisitions	-	786
Net cash provided by (used) in investing activities	(8,823)	(3,359)
Financing activities		
Proceeds on issuance of shares	42	1,710
Shares repurchased from market	(2,887)	(450)
Net cash provided by (used in) financing activities	(2,845)	1,260
Effect of exchange rate changes on cash and cash equivalents	369	(154)
Increase (decrease) in cash and cash equivalents	(20,893)	20,284
Cash and cash equivalents - Beginning of the year	22,262	1,978
Cash and cash equivalents - End of the year	1,369	22,262
Interest	35	-
Cash paid for income tax	6,600	1,144

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 and the exploration of gold in properties in Canada.

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

2. BASIS OF PRESENTATION

a. Statement of compliance

The Company prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Handbook of the Canadian Institute of Chartered Accountants. The consolidated financial statements have been prepared under the historical cost method, except for certain financial instruments measured at fair value. The Company has consistently applied the accounting policies used in preparation of these consolidated financial statements throughout all the periods presented. Critical accounting estimates and judgments used by management in the preparation of these consolidated financial statements are presented in note 4.

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

The consolidated financial statements were approved by the Board of Directors for issue on March 26, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a. Consolidation

i. <u>Subsidiaries</u>

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. <u>Transactions eliminated on consolidation</u>

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.

m. Impairment

i. Financial assets

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. Non-financial assets

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 the higher of value in use and fair value less costs to sell.

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.

s. ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

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.

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

4. SIGNIFICANT ACCOUNTING 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, 2012 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 $112. 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 $111. Assuming all other variables remain constant, a 10% change in the undiscounted estimate of the ARO would result in the liability change of approximately $133.

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.

(in thousands of US Dollars)

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.

5. MARKETABLE SECURITIES

The Company invested $5,000 in the Sprott Physical Silver Trust to hold units reflecting an underlying investment in ounces of silver. These securities have been classified as a “held for trading financial instrument” during the year. An unrealized loss of $848 was recorded in income in recognition of a decrease in value as at December 31, 2012.

6. INVENTORIES

	2012 $	2011 $
Ore	29	450
Concentrate	578	-
Production spares	1,415	1,009
	2,022	1,459

(in thousands of US Dollars)

7. PROPERTY, PLANT AND EQUIPMENT

	Mining properties $	Mining equipment $	Processing equipment $	Assets under construction $	Total $
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	-	-	-	(1,273)	(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
Year ended December 31, 2012					
Opening net book value	8,254	5,440	6,693	767	21,154
Additions	1,115	856	38	768	2,777
Reclassification	-	864	185	(1,049)	-
Disposals	-	(3)	(1,741)	-	(1,744)
Depreciation	(615)	(1,066)	(1,023)	-	(2,704)
Write-down	-	-	(100)	-	(100)
Exchange differences	546	409	587	47	1,589
Closing net book value	9,300	6,500	4,639	533	20,972
At December 31, 2012					
Cost	22,810	10,928	7,685	533	41,956
Accumulated depreciation	(13,510)	(4,428)	(3,046)	-	(20,984)
	9,300	6,500	4,639	533	20,972

(in thousands of US Dollars)

8. MINERAL RIGHTS

	Platosa (Mexico) $	Beschefer (Canada) $	Desantis (Canada) $	Total $
At January 1, 2011				
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
Year ended December 31, 2012				-
Opening net book value	1,596	8,163	10,960	20,719
Additions	2,400	648	804	3,852
Depreciation	(189)	-	-	(189)
Exchange differences	222	(81)	(118)	23
Closing net book value	4,029	8,730	11,646	24,405
At December 31, 2012				
Cost	4,927	8,730	11,646	25,303
Accumulated depreciation	(898)	-	-	(898)
	4,029	8,730	11,646	24,405

(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:

(in thousands of US Dollars)

	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

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

9. PROVISIONS

	Post - retirement benefits (1) $	Rehabilitation provision $	Total $
At January 1, 2011			
Opening 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 year	-	34	34
Exchange differences	(131)	(45)	(176)
Closing Balance	228	1,201	1,429
Year ended December 31, 2012			
Opening balance	228	1,201	1,429
Change in estimate	59	(34)	25
Accretion for the year	-	75	75
Exchange differences	18	90	108
Closing Balance	305	1,332	1,637

(in thousands of US Dollars)

(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 6.5% (2011 – 7%), annual salary and minimum wage increase rate of 3.5% (2011 – 3.5%) and the life of the mine of ten years.

10. SHARE CAPITAL

	Number of shares (000's)	$
Year ended December 31, 2011		
Opening balance	247,873	55,937
Shares issued on exercise of stock options	3,165	2,856
Shares issued on Lateegra acquisition	27,031	18,400
Shares issued on Beschefer agreement	1,080	855
Share purchase buyback	(852)	(251)
Balance at December 31, 2011	278,297	77,797
Year ended December 31, 2012		
Opening balance	278,297	77,797
Shares issued on exercise of stock options	84	71
Shares issued on Beschefer agreement	1,080	648
Shares issued on Desantis agreement	842	414
Share purchase buyback	(5,124)	(1,477)
Balance at December 31, 2012	275,179	77,453

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.

Disclosure of share option program

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

(in thousands of US Dollars)

	2012		2011	
	Weighted Average Exercise Price (CAD)	Options	Weighted Average Exercise Price (CAD)	Options
Outstanding at January 1	$ 1.07	13,764,952	$ 1.18	12,844,272
Granted	$ 0.54	2,000,000	$ 0.67	6,198,400
Exercised	$ 0.50	(83,334)	$ 0.53	(3,165,000)
Expired	$ 2.10	(2,139,968)	$ 1.54	(1,669,385)
Forfeited	$ 0.68	(1,294,666)	$ 0.90	(443,335)
Outstanding at December 31	$ 0.85	12,246,984	$ 1.07	13,764,952
Exercisable at December 31	$ 0.90	10,168,638	$ 1.15	10,818,270

The options outstanding at December 31, 2012 have an exercise price in the range of CAD $0.19 to CAD $3.18 (2011 - CAD $0.19 to CAD $5.21) and a weighted average remaining contractual life of 2.61 years (2011 - 2.69 years).

The weighted average share price at the date of exercise for share options exercised in 2012 was CAD $0.62 (2011 - CAD $0.94).

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	2012	2011
Fair value at grant date	$ 0.40	$ 0.42
Share price at grant date	$ 0.54	$ 0.79
Exercise price	$ 0.85	$ 0.67
Risk free interest rate	1.31%	1.58%
Expected life of options in years	2.61	2.92
Expected volatility	92.28%	81.04%
Expected dividend yield	0.00%	0.00%
Estimated forfeiture rate	4.97%	2.99%

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:

(in thousands of US Dollars)

	2012	2011
	$	$
Share options granted in 2009	-	132
Share options granted in 2010	227	687
Share options granted in 2011	448	1,816
Share options granted in 2012	455	-
	1,130	2,635

WARRANTS

During the year, all outstanding warrants expired, unexercised.

Disclosure of warrants

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

	2012		2011	
	Weighted Average Exercise Price (CAD)	Warrants	Weighted Average Exercise Price (CAD)	Warrants
Outstanding at January 1	0.82	3,928,662	-	-
Granted during the period	-	-	0.86	6,244,650
Expired during the period	0.82	(3,928,662)	0.92	(2,315,988)
Outstanding at December 31	-	-	0.82	3,928,662
Exercisable at December 31	-	-	0.82	3,928,662

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	2012	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%

(in thousands of US Dollars)

11. EXPENSE BY NATURE

(a) Cost of sales is comprised of the following:

	2012 $	2011 $
Direct mining and milling costs (1)	16,081	14,241
Depletion, depreciation and amortization	2,787	2,411
Royalties	321	543
Cost of sales	19,189	17,195

(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. Care and maintenance costs incurred at the mine during the illegal blockade have been included in cost of sales.

(b) Corporate administrative expenses consist of the following:

	2012 $	2011 $
Office and overhead costs	3,025	2,810
Salaries and wages	3,078	3,033
Share based compensation	1,130	2,474
Depletion, depreciation and amortization	105	88
Corporate administrative expenses	7,338	8,405

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

	2012 $	2011 $
Impairment of long term assets	100	1,273
Unrealized loss (gain) on marketable securities	851	-
Foreign exchange loss (gain)	(1,728)	3,792
Other expenses (income)	(777)	5,065

12. COMPENSATION OF KEY MANAGEMENT

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

	2012 $	2011 $
Salaries and short-term employee benefits	2,399	2,272
Share-based payments	1,126	1,656
	3,525	3,928

(in thousands of US Dollars)

13. RELATED PARTIES

The corporate secretary 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 $182 (2011 – $162) with an outstanding payable balance of $18 at December 31, 2012 (December 31, 2011 – $30).

14. INCOME TAX

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

	2012 $	2011 $
Statutory tax rates	**26.50%**	**28.25%**
Income taxes computed at the statutory rates	139	3,177
Non-deductible items	(1,014)	773
Change in tax benefit not recognized	(7,080)	2,283
Foreign tax differentials, rate changes and other	71	581
Provision for income taxes (recovery)	(7,884)	6,814

The enacted or substantially enacted tax rate in Canada (26.50% in 2012) and Mexico (30.00% in 2012) where the company operates is applied in the tax provision calculation. The Canadian tax rate decreased from 28.25% in 2011 to 26.50% in 2012 due to reductions in the enacted Federal and Ontario rates.

Provision for (recovery of) income taxes consists of the following:

	2012 $	2011 $
Current income taxes	506	6,270
Deferred income taxes (recovery)	(8,390)	544
	(7,884)	6,814

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

	2012 $	2011 $
Non-capital losses carried forward	6,232	-
Resource related assets	62	-
Property, plant and equipment	2,057	-
Prepaid expenses, deposits and other	543	364
Deferred income tax assets	8,894	364
Deferred income and other	(743)	(34)
Accrued revenue	(92)	(661)
Net deferred income tax assets (liabilities)	8,059	(331)

(in thousands of US Dollars)

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

	2012 $	2011 $
Non-capital losses carried forward	33,278	51,528
Capital losses	5,601	5,703
Resource related deductions	15,824	9,335
Share issuance costs	494	874
Property, plant and equipment	309	8,489
Prepaid expenses, deposits and other	968	2,110
	56,474	78,039

As at December 31, 2012, 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:

	2012 $	2011 $
2014	2,032	2,197
2015	496	460
2016	194	2,643
2017	6,098	6,861
2018	13,376	11,587
2019	560	485
2020 and thereafter	32,260	27,295
	55,016	51,528

As at December 31, 2012, the Company has Canadian capital losses of $11,201 (2011 - $11,405) that may be carried forward indefinitely and applied against capital gains of future years.

As a December 2012, $nil (2011 - $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, 2012 is $17,964 (2011 - $21,425).

(in thousands of US Dollars)

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.

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:

	2012 $	2011 $
Financial assets		
Loans and receivables		
Cash and cash equivalents	1,369	22,262
Trade receivables	5,467	548
Fair value through profit and loss		
Marketable securities	4,152	-
Available for sale investments		
Long term investments	20	71
	11,008	22,881
Financial liabilities		
Other liabilities	2,377	2,503
Trade payables	2,377	2,503

The carrying values of cash and cash equivalents, trade receivables and other liabilities approximate their fair value. The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

Embedded derivatives

Revenues from the sale of metals produced since the commencement of commercial production are based on provisional prices at the time of shipment. Variations between the price recorded at the time of sale and the actual final price received from the customer are caused by changes in market prices for metals sold and result in an embedded derivative in accounts receivable. The embedded derivative is recorded at fair value each reporting period until settlement occurs, with the changes in fair value recorded to revenues. For the year ended December 31, 2012, the Company recorded $8,387 (2011 – $11,476) in revenues from provisionally priced sales on the statement of income (loss) and comprehensive income (loss). As at December 31, 2012, the Company has recorded embedded derivatives in the amount of $4,130 (2011 – $138) in trade receivables.

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, 2012 and 2011.

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.

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 $36,273 (2011 - $48,010). An amount of $1,763 is included in the trade receivables from Trafigura as at December 31, 2012 (December 31, 2011 - $138).

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, Trafigura . 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 $561 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, 2012, 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, 2012, 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 $31.15 in 2012 (2011 - $35.12). The Company estimates that an increase (decrease) in the commodity prices by 10% in 2012 with all other variables held constant would have resulted in an increase (decrease) in net income of approximately $4,000.

Interest rate risk

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

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.

(in thousands of US Dollars)

	Canada		Mexico	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Property, plant and equipment	8	44	20,964	20,482
Capital expenditures	-	(19)	(2,777)	(4,126)
Mineral rights	20,376	19,123	4,029	1,596
Total assets	25,717	30,039	45,426	37,204
Revenue	-	-	36,273	48,010
Cost of sales	-	-	(19,189)	(17,195)
Corporate administrative expenses	(7,338)	(8,405)	-	-
Exploration	(2,798)	(858)	(7,109)	(5,209)
Other expenses	(1,077)	(280)	1,854	(4,785)
Net finance costs	(17)	-	(75)	(31)
Income tax	-	43	7,884	(6,857)
Net income (loss)	(11,230)	(9,500)	19,638	13,933