EXCELLON

Excellon Resources Inc.

Condensed Interim Consolidated Financial Statements

March 31, 2016
in thousands of U.S. dollars
(unaudited)

Excellon Resources Inc.

Condensed Interim Consolidated Statements of Financial Position

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

	Notes	March 31, 2016 $	December 31, 2015 $
Assets			
Current assets			
Cash and cash equivalents		3,534	3,506
Trade receivables		1,979	1,210
Income taxes receivable		1,786	2,164
Inventories	*3*	1,346	1,404
Other current assets		1,549	1,307
Assets held for sale	*5*	688	643
		10,882	10,234
Non-current assets			
Property, plant and equipment	*4*	14,217	14,499
Mineral rights	*5*	3,543	3,438
Deferred income tax assets	*13*	8,958	8,902
Total assets		37,600	37,073
Liabilities			
Current liabilities			
Trade payables		5,492	4,786
Non-current liabilities			
Convertible Debt	*6*	3,004	2,727
Embedded Derivative Liability	*6*	2,889	1,203
Purchase Warrants	*6*	530	189
Provisions	*7*	1,781	1,767
Total liabilities		13,696	10,672
Equity			
Share capital	*8*	77,362	77,362
Contributed surplus		12,267	12,159
Accumulated other comprehensive income		(12,263)	(12,284)
Deficit		(53,462)	(50,836)
Total equity		23,904	26,401
Total liabilities and equity		37,600	37,073

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

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

Excellon Resources Inc.

Condensed Interim Consolidated Statements of loss and Comprehensive loss

For the three months ended March 31, 2016 and 2015

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

	Notes	March 31, 2016 $	March 31, 2015 $
Revenues	*9*	4,261	5,055
Production Costs		(3,269)	(4,560)
Depletion and amortization		(605)	(847)
Cost of Sales	*10a*	(3,874)	(5,407)
Gross profit (loss)		387	(352)
Administrative expenses		(505)	(614)
Share based payments	*8*	(108)	(128)
Depletion and amortization		(41)	(50)
General and administrative expenses	*10b*	(654)	(792)
Exploration		(137)	(226)
Other income (expense)	*10c*	(367)	550
Finance cost	*11*	(1,980)	(26)
Loss before income tax		(2,751)	(846)
Income tax recovery	*13*	125	609
Net loss		(2,626)	(237)
Other comprehensive income (loss)			
Foreign currency translation differences		21	(1,993)
Total other comprehensive income (loss)		21	(1,993)
Total comprehensive loss		(2,605)	(2,230)

Loss per share		
Basic	$ (0.05)	$ (0.00)
Diluted	$ (0.05)	$ (0.00)

Weighted average number of shares		
Basic	54,999,442	54,935,424
Diluted	56,268,640	54,944,780

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

Excellon Resources Inc.

Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended March 31, 2016 and 2015

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

	Share capital $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Deficit $	Total equity $
Balance - January 1, 2015	77,323	11,504	(6,745)	(45,796)	36,286
Net loss for the period	-	-	-	(237)	(237)
Total other comprehensive loss	-	-	(1,993)	-	(1,993)
Total comprehensive loss	-	-	(1,993)	(237)	(2,230)
Employee share options:					
Value of services recognized	-	43	-	-	43
Deferred and Restricted share units					
Value of units recognized	29	32	-	-	61
Balance - March 31, 2015	77,352	11,579	(8,738)	(46,033)	34,160
Balance - January 1, 2016	77,362	12,159	(12,284)	(50,836)	26,401
Net loss for the period	-	-	-	(2,626)	(2,626)
Total other comprehensive income	-	-	21	-	21
Total comprehensive loss	-	-	21	(2,626)	(2,605)
Employee share options:					
Value of services recognized	-	18	-	-	18
Deferred and Restricted share units					
Value of units recognized	-	90	-	-	90
Balance - March 31, 2016	77,362	12,267	(12,263)	(53,462)	23,904

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

Excellon Resources Inc.

Condensed Interim Consolidated Statements of Cash Flow

For the three months ended March 31, 2016 and 2015

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

	March 31, 2016 $	March 31, 2015 $
Cash flow provided by (used in)		
Operating activities		
Net loss for the period	(2,626)	(237)
Adjustments for:		
Depletion and amortization	646	897
Deferred income tax	(56)	(417)
Share-based compensation	108	128
Post-employment benefits	24	41
Rehabilitation provision - accretion	9	18
Disposal of property, plant and equipment	185	-
Convertible debentures - accretion	81	-
Unrealized loss on warrants liability	321	-
Unrealized loss on embedded derivative liability	1,569	-
Operating cash flows before changes in working capital	261	430
Changes in items of working capital:		
Trade receivables	(769)	(79)
Income taxes receivable	378	(108)
Inventories	58	395
Other current assets	(242)	(211)
Trade payables	706	(1,147)
Net cash from (used in) operating activities	392	(720)
Investing activities		
Purchase of property, plant and equipment	(603)	(392)
Purchase of mineral rights	-	(11)
Net cash used in investing activities	(603)	(403)
Financing activities		
Net cash provided by financing activities	-	-
Effect of exchange rate changes on cash and cash equivalents	239	(1,071)
Increase (decrease) in cash and cash equivalents	28	(2,194)
Cash and cash equivalents - Beginning of the period	3,506	3,467
Cash and cash equivalents - End of the period	3,534	1,273
Cash paid for income tax	21	161

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

1. GENERAL INFORMATION

Excellon Resources Inc. and its subsidiaries (together the Company or Excellon) are 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 Ontario. The address of its registered office is 20 Victoria Street, Suite 900, Toronto, Ontario, M5C 2N8, Canada.

2. BASIS OF PRESENTATION

a. Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in compliance 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 1 of the Chartered Professional Accountants of Canada including IAS 34 Interim Financial Reporting. The condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015.

The accounting policies and the application adopted are consistent with those disclosed in Note 3 to the Company's consolidated financial statements for the year ended December 31, 2015.

Areas of critical accounting estimates and judgments that have the most significant effect on the amounts recognized in the condensed interim consolidated financial statements are disclosed in Note 4 of the Company's consolidated financial statements as at and for the year ended December 31, 2015.

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

These condensed interim consolidated financial statements were approved by the Board of Directors for issue on May 10, 2016.

b. Accounting standards issued but not yet applied

IFRS 15, Revenue from contracts with Customers ("IFRS 15") was issued by the IASB in May 2014. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 is effective for annual periods beginning on January 1, 2018. The Company is currently evaluating the impact this standard is expected to have on its consolidated financial statements.

IFRS 16, Leases ("IFRS 16") was issued on January 13, 2016. The new standard brings most leases onto the balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting however remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

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

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

3. INVENTORIES

	March 31, 2016 $	**December 31, 2015 $**
Ore	62	50
Concentrate	35	41
Production spares	1,249	1,313
	1,346	1,404

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

4. PROPERTY, PLANT AND EQUIPMENT

	Mining properties $	Mining equipment $	Processing equipment $	Assets under construction $	Total $
At January 1, 2015					
Cost	24,482	11,072	7,094	320	42,968
Accumulated amortization	(14,097)	(6,004)	(4,483)	-	(24,584)
	10,385	5,068	2,611	320	18,384
Year ended December 31, 2015					
Opening net book value	10,385	5,068	2,611	320	18,384
Additions	879	161	-	586	1,626
Amortization	(1,284)	(1,005)	(661)	-	(2,950)
Exchange differences	(1,479)	(665)	(324)	(93)	(2,561)
Closing net book value	8,501	3,559	1,626	813	14,499
At December 31, 2015					
Cost	21,604	9,607	6,068	813	38,092
Accumulated amortization	(13,103)	(6,048)	(4,442)	-	(23,593)
	8,501	3,559	1,626	813	14,499
Period ended March 31, 2016					
Opening net book value	8,501	3,559	1,626	813	14,499
Additions	112	294	-	197	603
Disposals	-	(185)	-	-	(185)
Amortization	(274)	(179)	(125)	-	(578)
Exchange differences	(51)	(42)	(27)	(2)	(122)
Closing net book value	8,288	3,447	1,474	1,008	14,217
At March 31, 2016					
Cost	21,992	9,415	5,708	1,008	38,123
Accumulated amortization	(13,704)	(5,968)	(4,234)	-	(23,906)
	8,288	3,447	1,474	1,008	14,217

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

5. MINERAL RIGHTS

	Platosa (Mexico) $	Beschefer (Canada) $	DeSantis (Canada) $	Total $
At January 1, 2015				
Cost	4,534	1,723	1,292	7,549
Accumulated amortization	(1,574)	-	-	(1,574)
	2,960	1,723	1,292	5,975
Year ended December 31, 2015				
Opening net book value	2,960	1,723	1,292	5,975
Additions	9	-	-	9
Amortization	(320)	-	-	(320)
Impairments (1)	(219)	-	(443)	(662)
Reclassified as held for sale (1)	-	-	(643)	(643)
Exchange differences	(432)	(283)	(206)	(921)
Closing net book value	1,998	1,440	-	3,438
At December 31, 2015				
Cost	3,847	1,440	-	5,287
Accumulated amortization	(1,849)	-	-	(1,849)
	1,998	1,440	-	3,438
Period ended March 31, 2016				
Opening net book value	1,998	1,440	-	3,438
Amortization	(68)	-	-	(68)
Exchange differences	71	102	-	173
Closing net book value	2,001	1,542	-	3,543
At March 31, 2016				
Cost	3,950	1,542	-	5,492
Accumulated amortization	(1,949)	-	-	(1,949)
	2,001	1,542	-	3,543

(1) At December 31, 2015, the Company has reclassified the DeSantis property (“DeSantis”) to current assets on the balance sheet as an asset held for sale based on a letter of intent to sell DeSantis entered into in 2015 with Oban Mining Corporation (“Oban”). The Company wrote down the carrying value of DeSantis to an estimated fair value of $643, representing the consideration expected to be received when the sale closes in 2016. On April 8, 2016 the Company closed the sale of the mining claims composing a portion of DeSantis in exchange for 620,400 common shares of Oban. The Oban shares are subject to a hold period of four months plus one day. The Company will further receive an additional 229,600 common shares of Oban on the transfer of the mining leases comprising the remainder of DeSantis for a total of 850,000 common shares of Oban, which is expected to be completed in Q2 2016.

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

6. DEBT

On November 27, 2015 the Company completed financing of $4,766 (CAD$6,600) through the private placement of secured convertible debentures of the Company (the "Debentures") valued at $4,040 (CAD$5,610) and the sale of a net smelter return royalty (the "NSR") on the Platosa Project valued at $726 (CAD$990), collectively the "Financing".

The net proceeds from the Financing will be used to implement an optimization plan at the Platosa Mine and for general corporate purposes.

	At inception date $	Fair value adjustments $	December 31, 2015 $
A - Proceeds from Convertible Debentures			
Gross proceeds	4,040	356	4,396
Less transaction costs	(277)	-	(277)
Net proceeds	3,763	356	4,119
B - Proceeds from NSR Royalty			
Gross proceeds	726	-	726
Less transaction costs	-	-	-
Net proceeds	726	-	726
Total gross proceeds	4,766	356	5,122
Total transaction costs	(277)	-	(277)
Total net proceeds	**4,489**	**356**	**4,845**

A - Convertible Debentures

The Debentures have a term of four years and are convertible into common shares ("Common Shares") of the Company prior to maturity at a conversion price of CAD$0.50 per Common Share. The Debentures bear interest at an annual rate of 3.75%, payable in cash semi-annually. Interest on the Debentures may alternatively be paid in Common Shares of the Company at the Company's option based on (i) the 10-day volume-weighted average price ("VWAP") of the Common Shares prior to the payment date and (ii) an effective rate of interest of 5% for the applicable period.

The repayments of principle and interest are summarized as follows:

	Within 1 year $	2-5 years $	Total $
Convertible Debentures (principal & interest)	168	4,530	4,698

On or after the second anniversary of the date of issue and prior to maturity, the Company may accelerate the conversion of the Debentures as follows: (i) 50% of the principal amount, provided that the 20-day VWAP of the Common Shares is CAD$1.10; and (ii) the remaining 50% principal amount provided that the 20-day VWAP of the Common Shares is CAD$1.40.

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

On the second anniversary of the closing of the Financing (the "Put Date"), Debenture holders will have the option to request repayment in cash of the outstanding principal amount of the Debentures plus accrued interest by providing the Company with two months prior written notice and a one month period for repayment following the Put Date.

The Company issued a total of 2,002,772 Common Share purchase warrants ("Warrants") to the purchasers of the Debentures per the terms of the financing. Each Warrant is exercisable at a price of CAD$0.50 for a period of four years from the date of issuance.

In connection with the Financing, the Company granted 480,000 broker warrants (the "Broker Warrants") entitling the holder to purchase one Common Share at an exercise price of CAD$0.50 per Common Share for a period of three years from the closing of the Financing. The Common Shares underlying the Debentures, Warrants and Broker Warrants shall be subject to a four-month hold period following closing of the Financing in accordance with applicable securities legislation.

In accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Debentures are considered to contain an embedded derivative relating to the conversion option. The conversion option was valued upon initial recognition at fair value using an option pricing model and was separated from the debt component of the Debentures. The debt component of the Debentures was measured upon initial recognition, based on the present value of the cash flows associated with the Debentures. Subsequent to initial recognition, the embedded derivative component is re-measured at fair value at each reporting date while the debt component is accreted to the face value of the Debentures using the effective interest rate through periodic charges to finance expense over the term of the Debentures. Accretion relating to the Debentures for the three months ended March 31, 2016 was $81.

Fair value adjustment for the embedded derivative relating to the conversion option for the three months ended March 31, 2016 was $1,569.

Also in accordance with IAS 39, Financial Instruments: Recognition and Measurement, the Warrants were detached from the convertible Debentures host contract and recognized as a separate financial liability. The warrants were fair valued using the Black-Scholes Model upon initial recognition based on the Warrants terms. The fair value adjustment of the Warrants for the three months ended March 31, 2016 was $321.

The components of the Debentures are summarized as follows:

	January 1, 2016 $	Accretion $	Fair value adjustments $	Exchange adjustments $	March 31, 2016 $
Convertible Debentures breakdown					
Convertible Debt	2,727	81	-	196	3,004
Embedded Derivative Liability	1,203	-	1,569	117	2,889
Purchase Warrants	189	-	321	20	530
Total	**4,119**	**81**	**1,890**	**333**	**6,423**

The above components have been classified as non-current liabilities on the balance sheet.

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

B - Net Smelter Return Royalty

The NSR applies to the Platosa Project and bears a rate of either (a) 1.25% in respect of manto or mineralization other than skarn mineralization or (b) 0.50% in respect of skarn or "Source" mineralization. Payments will be made in cash semi-annually. The NSR proceeds of $726 were amortized into income in 2015.

7. PROVISIONS

	Post-retirement benefits (1)	Rehabilitation provision (2)	Total
	$	$	$
Year ended December 31, 2015			
Opening balance	669	1,315	1,984
Change in estimate	(65)	69	4
Accretion for the year	-	67	67
Exchange differences	(92)	(196)	(288)
Closing Balance	512	1,255	1,767
Period ended March 31, 2016			
Opening balance	512	1,255	1,767
Change in estimate	24	-	24
Accretion for the year	-	9	9
Exchange differences	(5)	(14)	(19)
Closing Balance	531	1,250	1,781

(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% (December 31, 2015 – 6%) based on the yield curve from short and long term Mexican government bonds, annual salary and minimum wage increase rate of 3.6% (December 31, 2015 – 3.6%) and the life of mine of five years.

(2) Rehabilitation Provision: Key financial assumptions used in the above estimate include an annual discount rate of 2.9% (December 31, 2015 – 2.9%) based on the current risk-free borrowing rate and Mexican inflation rate and the life of mine of five years.

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

8. SHARE CAPITAL

	Number of shares (000's)	$
Year ended December 31, 2015		
Opening balance	54,904	77,323
Shares issued on exercise of stock options	153	73
Shares purchased under normal course issuer bid	(32)	(34)
Balance at December 31, 2015	55,025	77,362
Period ended March 31, 2016		
Opening balance	55,025	77,362
Shares returned to treasury (1)	(323)	-
Balance at March 31, 2016	54,702	77,362

(1) During the period, the Company returned 322,887 Common Shares to treasury relating to the purchase of Destorbelle Mines Limited ("Destorbelle") in 2004. Under the terms of that transaction, each shareholder of Destorbelle was entitled to receive 3.25 common shares of the Company (pre-consolidation) and $0.60 cash for each Destorbelle share. The shares returned to treasury represent the entitlement of unexchanged Destorbelle shares as of 2016. The Company may issue Common Shares to any holders of unexchanged Destorbelle shares from time-to-time upon deposit of Destorbelle shares for exchange.

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. 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 with varying vesting conditions.

Disclosure of share option program

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

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

	Weighted Average Exercise Price (CAD)	Options Outstanding
Outstanding at January 1, 2015	$ 2.65	2,752,000
Granted	$ 0.53	815,000
Expired	$ 4.90	(273,000)
Forfeited	$ 2.39	(750,000)
Outstanding at December 31, 2015	$ 1.80	2,544,000
Exercisable at December 31, 2015	$ 2.12	2,025,683

Outstanding at January 1, 2016	1.80	2,544,000
Expired	$ 4.40	(40,000)
Forfeited	$ 1.68	(100,000)
Cancelled (1)	$ 3.08	(929,000)
Outstanding at March 31, 2016	$ 0.94	1,475,000
Exercisable at March 31, 2016	$ 1.12	985,016

(1) The Company cancelled 929,000 stock options, all of which were fully vested and had no financial impact upon cancellation.

As at March 31, 2016, the following stock options were outstanding and exercisable:

CAD	Stock Options Outstanding	Weighted Average Remaining Contractual Life (years)	Stock Options Exercisable	Weighted Average Exercise Price (CAD)
$0.00 to $0.49	150,000	4.76	50,008	$ 0.31
$0.50 to $0.99	560,000	4.01	195,008	$ 0.60
$1.14 to $1.49	635,000	2.75	610,000	$ 1.16
$1.50 to $1.99	30,000	2.43	30,000	$ 1.93
$2.00 to $2.50	100,000	1.57	100,000	$ 2.10
	1,475,000	3.35	985,016	$ 1.12

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 were the following:

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

	Three months ended	
	March 31, 2016	March 31, 2015
Fair value at grant date	-	$0.52
Share price at grant date	-	$0.87
Exercise price	-	$0.87
Risk free interest rate	-	1.21%
Expected life of options in years	-	5.00
Expected volatility	-	73.66%
Expected dividend yield	-	0.00%
Estimated forfeiture rate	-	3.57%

During the three months ended March 31, 2016, no options were granted.

Share-based compensation expense

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

	Three months ended	
	March 31, 2016 $ (CAD)	March 31, 2015 $ (CAD)
Share options granted in 2013	-	37
Share options granted in 2014	3	10
Share options granted in 2015	22	6
	25	53

DEFERRED SHARE UNITS ("DSU")

During 2013, the Company implemented a DSU plan for directors of the Corporation, which was subsequently amended and approved by the Company's shareholders on April 29, 2014. Pursuant to the new plan, DSUs can be paid in cash or in awards of common shares either from treasury or from market purchases based on the five-day volume weighted average price ("Market Price") of the Company's publicly traded common shares on settlement dates elected by a director between the retirement date and December 15th of the calendar year subsequent to the year of the director's retirement. All grants under the plan are fully vested upon credit to an eligible directors' account. The value of the cash payout is determined by multiplying the number of DSUs vested at the payout date by the Market Price of the Company's shares. The expense is recorded in the consolidated statement of loss and comprehensive loss in share based payments and credited to equity under contributed surplus since the payment in cash or common shares is at the option of the Company.

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

Disclosure of DSU program

The number DSUs outstanding are as follows:

	DSUs Outstanding
Outstanding at January 1, 2015	371,426
Granted	1,403,265
Settled	(153,282)
Outstanding at December 31, 2015	1,621,409
Granted	138,935
Outstanding at March 31, 2016	1,760,344

During the three months ended March 31, 2016, the Company granted 138,935 DSUs (three months ended March 31, 2015 – 135,383 DSUs) with a market value of CAD$85 (three months ended March 31, 2015 - CAD$78) at the date of grant to non-executive directors as compensation in lieu of cash director fees.

During the three months ended March 31, 2016, there were nil DSUs settled for common shares (three months ended March 31, 2015 – 55,124 DSUs).

Total share based compensation expensed in the three months ended March 31, 2016 related to vested DSUs was CAD$85 (three months ended March 31, 2015 – CAD$78). As at March 31, 2016, the Company has 1,760,334 outstanding DSUs.

RESTRICTED SHARE UNITS ("RSU")

During 2013, the Company implemented a RSU plan for officers and employees of the Corporation, which was subsequently amended and approved by the Company's shareholders on April 29, 2014. The RSU Plan entitles officers or employees to either a cash payment or an award of common shares from treasury or from market purchases at the end of a term or performance period of up to three years following the date of the award. The value of the cash payout is determined by multiplying the number of RSUs vested at the payout date by the Market Price of the Company's shares prior to a payout date with settlement in cash. The expense is recorded in the consolidated statement of loss and comprehensive loss in share based payments and credited to equity under contributed surplus since the payment in cash or common shares is at the option of the Company.

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

Disclosure of RSU program

The number RSUs outstanding are as follows:

	RSUs Outstanding
Outstanding at January 1, 2015	293,507
Granted	870,000
Forfeited	(113,596)
Outstanding at December 31, 2015	1,049,911
Granted	60,000
Outstanding at March 31, 2016	1,109,911

During the three months ended March 31, 2016, the Company granted 60,000 RSUs subject to performance vesting conditions (three months ended March 31, 2015 – nil) with market value of CAD$23 at the date of grant to officers, employees and consultants.

During the three months ended March 31, 2016, there were no RSU settlements (three months ended March 31, 2015 – nil).

Total share based compensation expensed in the three months ended March 31, 2016 related to RSUs was CAD$35 (three months ended March 31, 2015 – CAD$27). As at March 31, 2016, the Company has 1,109,911 outstanding RSUs.

WARRANTS

In November 2015, the Company issued a total of 2,002,772 Warrants to purchasers of the Debentures in the Financing described in note 6. Each Warrant is exercisable at a price of CAD$0.50 for a period of four years from the date of issuance. The Warrants were fair valued at $128 upon issuance and recorded as a financial liability that is subject to fair value adjustments. During the three months ended March 31, 2016, the Company recognized a fair value adjustment $321 recorded in finance cost (three months ended March 31, 2015 - nil).

The Company also granted 480,000 broker warrants (the “Broker Warrants”) entitling the holder to purchase one Common Share at an exercise price of CAD$0.50 per Common Share for a period of three years from the closing of the Financing. The broker warrants valued at $32 were considered an equity share-based payment transaction and accordingly were recorded into equity.

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

9. REVENUES

Under the terms of the Company's concentrate sales contracts, lead–silver and zinc-silver concentrates are sold on a provisional pricing basis whereby sales are recognized at prevailing metal prices when the revenue recognition criteria have been met, namely when title, and risks and rewards of ownership have transferred to the customer. Revenue is recorded net of treatment and refining charges. Final pricing of each delivery is not determined until one or two months post-delivery. The price recorded at the time of sale may differ from the actual final price received from the customer due to changes in market prices for metals. The price volatility is considered an embedded derivative in accounts receivable. The embedded derivative is recorded at fair value at each reporting period until settlement occurs, with the changes in fair value recorded to revenues.

During the three months ended March 31, 2016, the Company recognized positive adjustment to revenues of $244, primarily related to the reversal of the mark to market adjustment taken at the end of 2015 as receivables were ultimately settled at higher values in 2016 (three months ended March 31, 2015 – positive adjustment of $71).

As at March 31, 2016, provisionally priced sales totalled $3,120 which are expected to settle at final prices during the second quarter of 2016. A 10% increase or decrease in the price of silver, lead and zinc will result in a corresponding increase or decrease in revenues of $312 during the second quarter of 2016.

10. EXPENSE BY NATURE

(a) Cost of sales comprises the following:

	March 31, 2016 $	March 31, 2015 $
Direct mining and milling costs (1)	3,271	4,362
Changes in inventories	(2)	198
Depletion, depreciation and amortization	605	847
Cost of sales	3,874	5,407

(1) Direct mining and milling costs 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.

(b) General and administrative expenses consist of the following:

	March 31, 2016 $	March 31, 2015 $
Office and overhead costs	277	296
Salaries and wages	228	318
Share based compensation	108	128
Depletion and amortization	41	50
General and administrative expenses	654	792

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

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

	March 31, 2016 $	March 31, 2015 $
Foreign exchange loss (gain)	367	(550)
Other expense (income)	367	(550)

11. FINANCE COST

Finance expense comprises the following:

	March 31, 2016 $	March 31, 2015 $
Interest Expense	-	8
Rehabilitation provision - accretion	9	18
Convertible debentures - accretion	81	-
Loss on change in fair value of purchase warrants	321	-
Loss on change in fair value of embedded derivative liability	1,569	-
Finance Cost	1,980	26

12. RELATED PARTIES

The corporate secretary of the Company is a partner in a firm that provides legal services to the Company. During the three months ended March 31, 2016, the Company incurred legal services of $20 (three months ended March 31, 2015 - $24). As at March 31, 2016, the Company had an outstanding payable balance of $150 (March 31, 2015 – $40).

13. INCOME TAX

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

In 2013, the Mexican tax authority (Servicio de Administración Tributaria – "SAT") in the state of Zacatecas completed an income tax audit of the 2008 and 2009 years in respect of one of the Company's Mexican subsidiaries. As a result of this audit, on February 24, 2014 and March 13, 2014 the Company received notice of reassessments from SAT for 2009 and 2008 respectively, denying deductions in the amount of 115.2 million pesos ($6,700) and 72.9 million pesos ($4,200) respectively that relate primarily to foreign exchange losses. The combined impact of the 2009 and 2008 reassessments is a reduction in the available non-capital loss balance totaling 188.1 million pesos ($10,900), which, consequently, would result in a reduction in the deferred tax asset balance of $3,300 and a corresponding increase in deferred income tax expense. Management was of the view that there was a strong case to support the Company's position, particularly because the SAT has only made adjustments to foreign exchange losses but has not made offsetting adjustments to foreign exchange gains recognized in the same period. Accordingly, the Company appealed the 2008 and 2009 reassessments through the SAT's appeal procedures.

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

In December 2014, the Company was notified by SAT that a favourable resolution had been issued, confirming the Company's tax treatment of the foreign exchange losses in its 2009 annual tax return and has since received a formal tax reassessment notice. In October 2015, the Company was notified by the SAT that a favourable resolution had been issued, confirming the Company's tax treatment of the foreign exchange losses in its 2008 annual tax return. The Company expects to receive formal tax reassessment notice from the SAT reflecting the favourable resolution for 2008. Accordingly, management believes, based on the tax advice from its tax advisors that it is more likely than not that the Company's position will be sustained and no amounts related to this issue has been recorded in the financial statements as of March 31, 2016.

14. 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. 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 three months ended March 31, 2016, the Company recorded $3,120 (three months ended March 31, 2015 – $2,155) in revenues from provisionally priced sales on the statement of loss and comprehensive loss, which are subject to adjustment pending final settlement in the second quarter of 2016. As at March 31, 2016, the Company has recorded embedded derivatives in the amount of $881 (as at March 31, 2015 – $1,001) in trade receivables.

Fair Value of derivative financial instruments

The following is a summary of the amortized cost and fair value of the Company's convertible debentures and warrants as at March 31, 2016:

	Amortized Cost $	Fair Value $
Financial liabilities		
Convertible Debt	3,004	6,373
	3,004	6,373

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

Fair Value Hierarchy

The Company values financial instruments carried at fair value using quoted market prices, where available. The three levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data

The financial 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:

	Fair value hierarchy	March 31, 2016 $	Dec 31, 2015 $
Financial liabilities			
Fair value through profit and loss			
Embedded Derivative Liability	Level 3	2,889	1,203
Purchase Warrants	Level 3	530	189
		3,419	1,392

There were no transfers between levels 1, 2 or 3 during the three months ended March 31, 2016.

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 Trafigura Mexico, S.A. de C/V (a subsidiary within the Trafigura group of companies) ("Trafigura") accounting for 100% of sales of $4,261 for the months ended March 31, 2016 (three months ended March 31, 2015 - $5,055). An amount of $881 is included in the trade receivables from Trafigura as at March 31, 2016 (as at March 31, 2015 - $969).

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$580 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. During Q3 2012, the Company sued the Ejido La Sierrita (the "Ejido") to terminate a surface rights agreement ("SRA") in respect of the surface rights to 1,100 hectares of exploration ground west and northwest of the La Platosa Mine and for various damages relating to an illegal blockade of the mine during Q3 and part of Q4 2012. The Ejido also sued for termination of the SRA, one week after being advised of Excellon's suit.

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 March 31, 2016, 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 $17.

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

Certain operating and capital expenditures are 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 March 31, 2016, 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 does not hedge its exposure to silver. The London Silver Spot price average, in USD per ounce, was $15 in the three months ended March 31, 2016 (three months ended March 31, 2015 - $17). The Company estimates that an increase (decrease) in the commodity prices by 10% in the three months ended 2016 with all other variables held constant would have resulted in an increase (decrease) in net loss of approximately $287.

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

Interest rate risk

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

15. SEGMENT REPORTING

	MEXICO		CANADA		TOTAL	
	March 31, 2016 $	**Dec 31, 2015 $**	**March 31, 2016 $**	**Dec 31, 2015 $**	**March 31, 2016 $**	**Dec 31, 2015 $**
Property, plant and equipment	14,217	14,499	-	-	14,217	14,499
Capital expenditures	(603)	(1,626)	-	-	(603)	(1,626)
Mineral rights	2,001	1,998	1,542	1,440	3,543	3,438
Total assets	33,509	32,029	4,091	5,044	37,600	37,073

	March 31, 2016 $	**March 31, 2015 $**
MEXICO		
Revenue	4,261	5,055
Cost of sales	(3,874)	(5,407)
Exploration	(134)	(208)
Other expenses	(469)	945
Finance costs	(9)	(26)
Income tax	125	609
Net income (loss)	(100)	968
CANADA		
Corporate administrative expenses	(654)	(792)
Exploration	(3)	(18)
Other expenses	102	(395)
Finance costs	(1,971)	-
Net income (loss)	(2,526)	(1,205)
Net income (loss)	**(2,626)**	**(237)**

16. SUBSEQUENT EVENTS

On April 4, 2016, the Company completed a non-brokered equity private placement (the "Unit Financing") in the Company for gross proceeds of CAD$3.0 million through the issuance of 6,666,667 units (each a "Unit") at a price of $0.45 per unit. Each Unit comprised one common share and one half-share purchase warrant of the Company ("Warrant"). Each full Warrant entitles the holder to purchase one additional common share of the Company at a price of CAD$0.65 per share for a period of 24 months from the closing date.

A finder's fee of CAD$60,000 was paid in respect of the Unit Financing. The Common Shares issued or the subsequent exercise of the Warrants are subject to a four-month hold period in accordance with applicable securities legislation.

On April 8, 2016 the Company closed the sale of the mining claims composing a portion of DeSantis in exchange for 620,400 common shares of Oban. The Oban shares are subject to a hold period of four months plus one day. The Company will further receive an additional 229,600 common shares of Oban on the transfer of the mining leases comprising the remainder of DeSantis for a total of 850,000 common shares of Oban, which is expected to be completed in Q2 2016. DeSantis has been classified as an asset held for sale as described in Note 5.