



Excellon Resources Inc.

Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018
in thousands of U.S. dollars
(unaudited)

Excellon Resources Inc.

Condensed Consolidated Statements of Financial Position

(unaudited) (in thousands of U.S. dollars)

		September 30 2019 \$	December 31 2018 \$
	Notes		
Assets			
Current assets			
Cash and cash equivalents		8,435	6,417
Marketable securities		121	59
Trade receivables		2,074	1,926
VAT receivables		3,327	3,274
Income taxes recoverable		667	568
Inventories	4	2,483	2,354
Other current assets		1,081	818
		18,188	15,416
Non-current assets			
Property, plant and equipment	3	23,138	21,747
Mineral rights	5	2,681	2,627
Deferred income tax assets		10,098	10,365
Other non-current assets		217	-
Total assets		54,322	50,155
Liabilities			
Current liabilities			
Trade and other payables	6	6,605	5,243
VAT payables		1,584	1,672
Current portion of long-term lease liabilities		354	261
Purchase warrants		589	323
		9,132	7,499
Non-current liabilities			
Long-term lease liabilities		757	263
Provisions	7	3,119	2,216
Deferred income tax liabilities		355	-
Total liabilities		13,363	9,978
Equity			
Share capital	8	114,119	106,786
Contributed surplus		28,560	26,811
Accumulated other comprehensive loss		(14,529)	(15,122)
Deficit		(87,191)	(78,298)
Total equity		40,959	40,177
Total liabilities and equity		54,322	50,155

Commitments (note 9)

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

Approved by the Board

Director

Director

"Daniella Dimitrov"

"Alan R. McFarland"

Excellon Resources Inc.

Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) For the three and nine months ended September 30, 2019 and 2018

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

	Notes	Three months ended		Nine months ended	
		September 30 2019	September 30 2018	September 30 2019	September 30 2018
		\$	\$	\$	\$
Revenues	10	5,943	2,570	19,795	18,358
Production costs		(5,790)	(5,221)	(17,199)	(14,353)
Depletion and amortization		(1,140)	(876)	(3,458)	(3,012)
Cost of Sales	11.a	(6,930)	(6,097)	(20,657)	(17,365)
Gross Profit (Loss)		(987)	(3,527)	(862)	993
Administrative expenses		(881)	(678)	(2,434)	(2,265)
Share-based payments	8	(191)	(349)	(918)	(1,564)
Depletion and amortization		(79)	6	(188)	(97)
General and administrative expenses	11.b	(1,151)	(1,021)	(3,540)	(3,926)
Exploration		(858)	(1,021)	(2,829)	(2,782)
Other income (expense)	11.c	(200)	368	(439)	(47)
Finance income (expense)	12	(71)	1,081	(459)	1,696
Loss before income taxes		(3,267)	(4,120)	(8,129)	(4,066)
Income tax recovery (expense)		365	538	(765)	516
Net Loss		(2,902)	(3,582)	(8,894)	(3,550)
Other comprehensive income					
Foreign currency translation differences		833	2,199	593	1,431
Total other comprehensive income		833	2,199	593	1,431
Total comprehensive loss		(2,069)	(1,383)	(8,301)	(2,119)
Loss per share					
Basic		\$ (0.03)	\$ (0.04)	\$ (0.09)	\$ (0.04)
Diluted		\$ (0.03)	\$ (0.04)	\$ (0.09)	\$ (0.04)
Weighted average number of shares					
Basic		103,451,521	98,632,134	100,706,460	97,307,507
Diluted		103,451,521	98,632,134	100,706,460	97,307,507

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

Excellon Resources Inc.

Condensed Consolidated Statements of Cash Flow

For the three and nine months ended September 30, 2019 and 2018

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

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2019	2018	2019	2018
	\$	\$	\$	\$
Cash flow provided by (used in)				
Operating activities				
Net loss for the period	(2,902)	(3,582)	(8,894)	(3,550)
Repayment of rehabilitation work performed	-	(30)	-	(60)
Adjustments for non-cash items:				
Depletion and amortization	1,182	870	3,603	3,109
Deferred income taxes	(423)	(650)	671	(796)
Share-based compensation	188	338	915	1,553
Post-employment benefits	101	24	182	71
Rehabilitation provision - accretion	27	34	81	101
Lease liabilities - accretion	81	5	111	10
Unrealized loss (gain) on currency hedges	77	(520)	26	(579)
Disposal of mineral properties (farm out)	104	-	104	-
Unrealized loss (gain) on warrants liability	(115)	(614)	239	(1,260)
Other provisions	100	-	700	-
Unrealized gain on marketable securities	24	-	(62)	-
Operating cash flows before changes in working capital	(1,555)	(4,125)	(2,324)	(1,401)
Changes in items of working capital:				
Trade receivables	(68)	404	(147)	1,316
VAT receivable	(355)	(334)	(52)	1,198
Income taxes recoverable	(17)	37	(99)	124
Inventories	(37)	(83)	(129)	(700)
Other assets	60	(207)	(480)	(195)
Trade and other payables	76	(283)	860	(276)
VAT payables	209	(289)	(88)	(960)
Net cash used in operating activities	(1,687)	(4,880)	(2,459)	(894)
Investing activities				
Purchase of property, plant and equipment	(993)	(939)	(3,550)	(2,366)
Purchase of mineral rights	(76)	-	(76)	-
Net cash used in investing activities	(1,069)	(939)	(3,626)	(2,366)
Financing activities				
Proceeds on issuance of shares from equity financing	7,982	-	7,982	-
Proceeds from options exercised	-	22	-	68
Proceeds from warrants exercised	10	-	16	1,681
Repayment of lease liabilities	(78)	(89)	(294)	(352)
Net cash from (used in) financing activities	7,914	(67)	7,704	1,397
Effect of exchange rate changes on cash and cash equivalents	(118)	473	399	(140)
Increase/(Decrease) in cash and cash equivalents	5,041	(5,413)	2,018	(2,003)
Cash and cash equivalents - Beginning of the period	3,394	15,675	6,417	12,265
Cash and cash equivalents - End of the period	8,435	10,262	8,435	10,262
Net interest paid	8	14	26	28
Cash paid for income taxes	79	37	224	110

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

Excellon Resources Inc.

Condensed Consolidated Statements of Changes in Equity

For the three and nine months ended September 30, 2019 and 2018

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

	Share capital \$	Contributed surplus \$	Accumulated other com- prehensive income (loss) \$	Deficit \$	Total equity \$
Balance - January 1, 2018	103,625	26,980	(14,336)	(70,598)	45,671
Net loss for the period	-	-	-	(3,550)	(3,550)
Total other comprehensive income	-	-	1,431	-	1,431
Total comprehensive income (loss)	-	-	1,431	(3,550)	(2,119)
Employee share options:					
Value of services recognized	42	185	-	-	227
Proceeds on issuing shares	68	-	-	-	68
Deferred and restricted share units					
Value of units recognized	434	892	-	-	1,326
Warrants					
Proceeds on issuing shares	2,329	(648)	-	-	1,681
Balance - September 30, 2018	106,498	27,409	(12,905)	(74,148)	46,854
Balance - January 1, 2019	106,786	26,811	(15,122)	(78,297)	40,178
Net loss for the period	-	-	-	(8,894)	(8,894)
Total other comprehensive income	-	-	593	-	593
Total comprehensive income (loss)	-	-	593	(8,894)	(8,301)
Employee share options:					
Value of services recognized	-	349	-	-	349
Deferred and restricted share units					
Value of units recognized	245	322	-	-	567
Warrants					
Value of warrants issued in Bought Deal	-	1,079	-	-	1,079
Proceeds on issuing shares	16	-	-	-	16
Value of shares issued in asset acquisition	169	-	-	-	169
Value of shares issued in Bought Deal	6,903	-	-	-	6,903
Balance - September 30, 2019	114,119	28,560	(14,529)	(87,191)	40,959

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

Excellon Resources Inc.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018
(unaudited) (in thousands of U.S. dollars, except share data)

1. GENERAL INFORMATION

Excellon Resources Inc. (the Company or Excellon) is a silver mining and exploration company listed on the Toronto Stock Exchange trading under the symbol EXN. The Company is focused on optimizing the Platosa Mine's cost and production profile, discovering further high-grade silver and carbonate replacement deposit ("CRD") mineralization on the 21,000 hectare Platosa Property located in northeastern Durango, Mexico and epithermal silver mineralization on the 45,000 hectare Evolución Property on the northern Fresnillo silver trend in Zacatecas, Mexico. The Company also holds an option on the 164 km² Silver City Project in Saxony, Germany, a high-grade epithermal silver district with 750 years of mining history and no modern exploration.

Excellon is domiciled in Canada and incorporated under the laws of the province of Ontario. The address of its registered office is 10 King Street East, Suite 200, Toronto, Ontario, M5C 1C3, Canada.

These condensed consolidated financial statements were approved by the Board of Directors on November 5, 2019.

2. BASIS OF PRESENTATION

a. *Statement of compliance*

The Company prepares its condensed consolidated financial statements in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and note disclosures normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the IASB, have been omitted or condensed. These condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2018 and the condensed consolidated financial statements for the three months ended March 31, 2019.

b. *Summary of significant accounting policies, judgements and estimates*

These condensed consolidated financial statements have been prepared using the same accounting policies, methods of computation, judgements and estimates as the annual consolidated financial statements of the Company as at and for the year ended December 31, 2018, with the exception of changes arising from the adoption of IFRS 16, *Leases* and the farm-out accounting policy noted below.

Farm-out accounting policy (see note 5.1)

Mineral rights held by the Company which are subject to a farm-out arrangement, where a farmee incurs certain expenditures on a property to earn an interest in that property, are accounted as follows:

- the Company does not record exploration expenditures made by the farmee on the property;
- any cash consideration and the initial fair value of any shares received is credited against the costs previously capitalized to the mineral rights;
- the change in fair value of any shares received by Company as part of a farm-out arrangement are recorded through profit or loss; and
- the Company uses the carrying value of the mineral rights before the farm-out arrangement as the carrying value for the portion of the interest retained (if any).

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Notes to the Condensed Consolidated Financial Statements

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c. Accounting pronouncements

IFRS 16, Leases

Effective January 1, 2019, the Company adopted the requirements of IFRS 16. The Company's accounting policies, estimates and judgments related to IFRS 16 and the effects of adoption are described in the Company's condensed consolidated financial statements for the three months ended March 31, 2019. There have been no changes to the Company's accounting policies, judgments and estimates related to IFRS 16.

3. PROPERTY, PLANT AND EQUIPMENT

	Mining properties \$	Mining equipment \$	Processing equipment \$	Assets under construction \$	Right of use assets \$	Total \$
At January 1, 2018						
Cost	27,778	14,269	5,605	786	-	48,438
Accumulated amortization	(15,965)	(7,057)	(4,231)	-	-	(27,253)
	11,813	7,212	1,374	786	-	21,185
Year ended December 31, 2018						
Opening net book value	11,813	7,212	1,374	786	-	21,185
Additions	688	1,529	139	2,155	-	4,511
Disposals	-	-	-	-	-	-
Reclassification	1,290	268	-	(1,558)	-	-
Depletion and amortization	(1,691)	(1,953)	(302)	-	-	(3,946)
Exchange differences	(18)	22	8	(15)	-	(3)
Closing net book value	12,082	7,078	1,219	1,368	-	21,747
At December 31, 2018						
Cost	29,212	15,938	5,756	1,368	-	52,274
Accumulated amortization	(17,130)	(8,860)	(4,537)	-	-	(30,527)
	12,082	7,078	1,219	1,368	-	21,747
Period ending September 30, 2019						
Opening net book value	12,082	7,078	1,219	1,368	-	21,747
Additions (1)	941	580	69	2,433	753	4,776
Reclassification	33	-	33	(66)	-	-
Depletion and amortization	(1,633)	(1,528)	(214)	-	(74)	(3,449)
Exchange differences	51	35	4	(28)	2	64
Closing net book value	11,474	6,165	1,111	3,707	681	23,138
At September 30, 2019						
Cost	30,411	16,562	5,870	3,707	755	57,305
Accumulated amortization	(18,937)	(10,397)	(4,759)	-	(74)	(34,167)
	11,474	6,165	1,111	3,707	681	23,138

Excellon Resources Inc.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018
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- (1) During the nine months ended September 30, 2019, the Company incurred capital expenditures of \$1,984 related to the dewatering sustaining capital which were recorded in assets under construction. Once these related assets are commissioned, they will be reclassified to their appropriate asset class.

4. INVENTORIES

	September 30 2019 \$	December 31 2018 \$
Ore stockpiles	283	53
Concentrate inventory	333	865
Production spare parts	1,867	1,436
	2,483	2,354

5. MINERAL RIGHTS

	Platosa (Mexico) \$	Beschefer (Canada) ⁽¹⁾ \$	Silver City (Germany) ⁽²⁾ \$	Total \$
At January 1, 2018				
Cost	3,775	1,594	-	5,369
Accumulated amortization	(2,353)	-	-	(2,353)
	1,422	1,594	-	3,016

Year ended December 31, 2018

Opening net book value	1,422	1,594	-	3,016
Depletion and amortization	(197)	-	-	(197)
Exchange differences	(64)	(128)	-	(192)
Closing net book value	1,161	1,466	-	2,627

At December 31, 2018

Cost	3,621	1,466	-	5,087
Accumulated amortization	(2,460)	-	-	(2,460)
	1,161	1,466	-	2,627

Period ended September 30, 2019

Opening net book value	1,161	1,466	-	2,627
Additions	-	-	245	245
Disposals	-	(104)	-	(104)
Depletion and amortization	(154)	-	-	(154)
Exchange differences	23	44	-	67
Closing net book value	1,030	1,406	245	2,681

At September 30, 2019

Cost	3,679	1,406	245	5,330
Accumulated amortization	(2,649)	-	-	(2,649)
	1,030	1,406	245	2,681

Excellon Resources Inc.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018
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- (1) On October 17, 2018 the Company announced an option agreement with Wallbridge Mining Company Ltd. on the Beschefer property, pursuant to which Wallbridge agreed to incur an aggregate of CAD\$4,500 in exploration expenditures on the property and issue a total of 7,000,000 common shares over three years to earn a 100% interest in the property. The first issuance of 500,000 common shares was made on the effective date of the option agreement. On September 21, 2019 the parties amended the original option agreement to increase the total number of shares to be issued to 8,000,000 common shares and to extend the option period by one year. The Company has accounted for this transaction as a farm-out arrangement and has credited the related mineral rights by \$104 being the initial fair value of the shares received, and recorded the gain in fair value of the shares of \$62 in profit and loss for the nine months ended September 30, 2019. The Company has not restated the comparative periods for the adoption of the farm-out accounting policy (note 2).
- (2) On September 24, 2019 the Company signed an option agreement with Globex Mining Enterprises to acquire a 100% interest in the Silver City Project in Saxony, Germany, pursuant to which the Company agreed to pay a total aggregate consideration value of CAD\$500 in cash and issue common shares valued at CAD\$1,600 over a period of three years. Upon completion of the payments and common shares issuances the Company will grant Globex Mining Enterprises a gross metals royalty of 3% for precious metals and 2.5% for other metals, both of which may be reduced by 1% upon a payment of CAD\$1,500. Additional one-time payments of CAD\$300 and CAD\$700 will be made by the Company following any future announcement of a maiden resource on the property and upon achievement of commercial production from the project, respectively. The first issuance of shares 226,837 (valued at CAD\$225) and the first cash payment (CAD\$100) were made on the effective date of the option agreement and recorded as an addition to the mineral rights (\$245).

6. TRADE AND OTHER PAYABLES

The Company's trade payables comprise accounts payable and accruals as at September 30, 2019. Accounts payable accounted for \$3,765 of the \$6,605 balance (as at December 31, 2018 – \$3,389 of the \$5,243 balance), of which \$621 related to electricity, \$143 related to exploration and \$473 related to Optimization Plan Phase 2 (as at December 31, 2018 – \$557 related to electricity, \$257 related to exploration and \$400 related to Optimization Plan Phase 2). Accruals of \$2,454 (as at December 31, 2018 – \$1,854) relate to operating costs, accounting, legal, statutory payroll withholding taxes and forward foreign exchange contracts that are marked to market.

The mark to market on forward foreign exchange contracts resulted in an unrealized loss adjustment of \$26 recorded in finance cost during the nine months ended September 30, 2019 and a corresponding decrease in accruals resulting in a net asset balance of \$206 in accruals (as at December 31, 2018 – \$313 net asset balance in accruals).

Excellon Resources Inc.

Notes to the Condensed Consolidated Financial Statements

For the three and nine months ended September 30, 2019 and 2018
(unaudited) (in thousands of U.S. dollars, except share data)

7. PROVISIONS

	Post-retirement benefits (1) \$	Rehabilitation provision (2) \$	Other Provisions (3) \$	Total \$
Year ended December 31, 2018				
Opening balance	521	1,491	-	2,012
Rehabilitation work performed	-	(66)	-	(66)
Change in estimate	163	(28)	-	135
Accretion for the year	-	133	-	133
Exchange differences	-	2	-	2
Closing Balance	684	1,532	-	2,216
Period ended September 30, 2019				
Opening balance	684	1,532	-	2,216
Change in estimate	137	-	-	137
Accretion/reclassification for the period	45	81	700	826
Exchange differences	(60)	-	-	(60)
Closing Balance	806	1,613	700	3,119

- (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 8.5% (December 31, 2018– 8.5%) based on the yield curve from short and long term Mexican government bonds, annual salary rate increase of 3.75% (December 31, 2018 – 3.75%) and minimum wage increase rate of 5.31% (December 31, 2018 – 5.31%) and the life of mine of approximately four years.
- (2) Rehabilitation provision: Key financial assumptions used in the above estimate include an annual discount rate of 6.9% (December 31, 2018 – 6.9%) based on the current risk-free borrowing rate, Mexican inflation rate and the life of mine of four years. The total undiscounted amount of estimated cash flows required to settle the Company's obligations is \$2,028 of which \$966 relates to the Platosa mine and \$1,062 relates to the Miguel Auza mill. The present value of the total discounted obligation is \$1,613 of which \$769 relates to the Platosa mine and \$844 relates to the Miguel Auza mill.
- (3) Other provisions: provisions for legal claims against the Company, including a claim disputing a concession within the Miguel Auza property. The Company believes the claim is without merit and is vigorously defending the matter. This concession is not considered material to the Company's operating business or exploration plans.

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Notes to the Condensed Consolidated Financial Statements

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8. SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of common shares.

	Number of shares (000's)	\$
Year ended December 31, 2018		
Opening balance	94,873	103,625
Shares issued on exercise of stock options	108	111
Shares issued on exercise of warrants (1)	3,333	2,329
Shares issued on exercise of RSUs and DSUs	891	721
Balance at December 31, 2018	99,205	106,786
Period ended September 30, 2019		
Opening balance	99,205	106,786
Shares issued on exercise of warrants	42	16
Shares issued from bought deal (2)	10,925	6,903
Shares issued in exchange of mineral rights (3)	227	169
Shares issued on exercise of RSUs and DSUs	198	245
Balance at September 30, 2019	110,597	114,119

- (1) On April 2, 2018, 3,333,333 CAD\$0.65 Warrants were exercised for proceeds of CAD\$2,167.
- (2) On August 27, 2019 the Company completed a public equity financing (the "2019 Bought Deal") of 10,925,000 units ("2019 Public Units") at a price of CAD\$1.06 per Public Unit for gross proceeds of CAD\$11,581 (the "2019 Offering"). Each 2019 Public Unit comprised one Common Share and one half-warrant ("\$.40 Warrant") with each whole warrant entitling the holder to acquire a Common Share at a price of CAD\$1.40 for a period ending August 27, 2021.

Broker and underwriting fees of CAD\$800 were paid in respect of the 2019 Bought Deal.

The net proceeds after transactions costs of CAD\$10,510 (\$8,000) were allocated proportionally between the fair values of the Common Shares and the \$.40 Warrants issued in the 2019 Bought Deal.

- (3) On September 24, 2019 the Company announced an option agreement with Globex Mining Enterprises to acquire a 100% interest in the Silver City Project in Saxony, Germany, pursuant to which the Company agreed to pay a total aggregate consideration value of CAD\$500 in cash and issue common shares valued at CAD\$1,600 over a period of three years. The first issuance of shares 226,837 (valued at CAD\$225) and the first cash payment (CAD\$100) were made on the effective date of the option agreement and recorded as an addition to the mining properties (\$245).

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STOCK OPTION PLAN (EQUITY-SETTLED)

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

	Weighted Average Exercise Price (CAD)	Options Outstanding
Outstanding at January 1, 2018	\$ 1.16	1,493,332
Granted	\$ 1.54	315,000
Exercised	\$ 0.81	(108,333)
Expired	\$ 1.20	(400,000)
Outstanding at December 31, 2018	\$ 1.27	1,299,999
Exercisable at December 31, 2018	\$ 1.15	966,663
Outstanding at January 1, 2019	\$ 1.27	1,299,999
Granted	\$ 0.94	1,150,000
Expired	\$ 1.36	(75,000)
Outstanding at September 30, 2019	\$ 1.11	2,374,999
Exercisable at September 30, 2019	\$ 1.15	1,443,327

DEFERRED SHARE UNITS ("DSU")

DSUs outstanding are as follows:

	DSUs Outstanding
Outstanding at December 31, 2017	2,067,872
Granted	419,559
Settled	(624,936)
Outstanding at December 31, 2018	1,862,495
Granted	426,081
Outstanding at September 30, 2019	2,288,576

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RESTRICTED SHARE UNITS ("RSU")

RSUs outstanding are as follows:

	RSUs Outstanding
Outstanding at December 31, 2017	2,015,232
Granted	916,052
Settled	(283,076)
Forfeited	(885,354)
Outstanding at December 31, 2018	1,762,854
Granted	1,787,092
Settled	(199,167)
Forfeited	(157,887)
Outstanding at September 30, 2019	3,192,892

The total share-based compensation expense is summarized as follows:

	Three months ended		Nine months ended	
	September 30 2019	September 30 2018	September 30 2019	September 2018
	\$	\$	\$	\$
Stock options	75	50	349	226
DSU	-	59	302	450
RSU	116	240	267	888
	191	349	918	1,564

WARRANTS

Common share purchase warrants outstanding are as follows:

	Weighted Average Exercise Price (CAD)	Warrants Outstanding
Outstanding at December 31, 2017	\$ 1.61	15,449,949
Exercised (1)	\$ 0.65	(3,333,333)
Naturally Expired in Period	\$ 2.13	(10,265,570)
Outstanding at December 31, 2018	\$ 0.50	1,851,046
Granted (2)	\$ 1.40	5,462,500
Exercised	\$ 0.50	(42,483)
Outstanding at September 30, 2019	\$ 1.18	7,271,063

(1) On April 2, 2018, 3,333,333 CAD\$0.65 Warrants were exercised for proceeds of CAD\$2,167.

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- (2) On August 27, 2019 the Company completed a public equity financing (the “2019 Bought Deal”) of 10,925,000 units (“2019 Public Units”) at a price of CAD\$1.06 per Public Unit for gross proceeds of CAD\$11,581 (the “2019 Offering”). Each 2019 Public Unit comprised one Common Share and one half-warrant (“\$1.40 Warrant”) resulting in the issuance of 5,462,500 CAD\$1.40 Warrants. Each whole warrant entitles the holder to acquire a Common Share at a price of CAD\$1.40 for a period ending August 27, 2021.

9. COMMITMENTS

The following table summarizes the Company’s significant commitments as of September 30, 2019:

	2019	2020	2021	2022	2023	Total
	\$	\$	\$	\$	\$	\$
Exploration License (Silver City Project)	-	304	374	590	-	1,268
Concession holding fees	219	452	453	494	494	2,112
Lease obligations (1)	92	345	268	177	229	1,111
	311	1,101	1,095	1,261	723	4,491

(1) Discounted values.

Not included above is the Platosa Project NSR as such payments vary period to period based on production results and commodity prices.

10. 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 by mark-to-market adjustments at each reporting period until settlement occurs, with the changes in fair value recorded to revenues. An amount of \$1,755 is included in the trade receivables as at September 30, 2019 (as at September 30, 2018 – \$755).

During the three months ended September 30, 2019, the Company recognized a negative adjustment to revenues of \$31 primarily related to the reversal of the mark-to-market taken at the end of June 30, 2019 as receivables were ultimately settled at lower values during the third quarter of 2019 (three months ended September 30, 2018 – negative adjustment of \$1,040).

During the nine months ended September 30, 2019, the Company recognized a negative adjustment to revenues of \$84 primarily related to the reversal of the mark-to-market taken at the end of 2018 as receivables were ultimately settled at lower values in 2019 (nine months ended September 30, 2018 - positive adjustment of \$3).

As at September 30, 2019, provisionally priced sales totalled \$5,077 which are expected to settle at final prices during the fourth quarter of 2019.

During the three and nine months ended September 30, 2019, the Company recorded \$170 and \$248 respectively, in net revenues associated with the initial ore milling test under the current toll milling arrangement signed with Hecla Mining Company in February 2018 (three and nine months ended September 30, 2018 – nil).

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The disaggregation of revenue from contracts with customers is as follows:

	Three months ended		Nine months ended	
	September 30 2019	September 30 2018	September 30 2019	September 30 2018
Disaggregation of revenue	\$	\$	\$	\$
Silver	4,138	1,783	11,607	8,856
Lead	1,174	491	3,719	3,740
Zinc	1,180	409	6,679	6,724
Less: Treatment and refining charges (TC/RC)	(719)	(113)	(2,458)	(962)
Revenues from sales	5,773	2,570	19,547	18,358
Net revenues from tolling services	170	-	248	-
Total revenue	5,943	2,570	19,795	18,358

11. EXPENSES BY NATURE

(a) Cost of sales consist of the following:

	Three months ended		Nine months ended	
	September 30 2019	September 30 2018	September 30 2019	September 30 2018
	\$	\$	\$	\$
Direct mining and milling costs (1)	5,843	5,214	16,864	14,705
Changes in inventories (2)	(53)	7	335	(352)
Depletion and amortization	1,140	876	3,458	3,012
Cost of sales	6,930	6,097	20,657	17,365

(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 and transport fees.

(2) Changes in inventories reflect the net cost of ore and concentrate (i) sold during the current period but produced in a previous period (an addition to direct mining and milling costs) or (ii) produced but not sold in the current period (a deduction from direct mining and milling costs).

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

	Three months ended		Nine months ended	
	September 30 2019	September 30 2018	September 30 2019	September 30 2018
	\$	\$	\$	\$
Office and overhead costs	495	405	1,397	1,410
Salaries and wages	386	273	1,037	855
Share-based compensation	191	349	918	1,564
Depletion and amortization	79	(6)	188	97
General and administrative expenses	1,151	1,021	3,540	3,926

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

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2019	2018	2019	2018
	\$	\$	\$	\$
Unrealized loss (gain) on marketable securities	24	-	(62)	-
Gain on disposal of assets	-	-	(19)	(3)
Foreign exchange loss (gain)	64	(327)	20	(90)
Provisions	-	-	600	203
Interest income	(14)	(43)	(37)	(109)
Spare parts obsolescence provision	(3)	-	(15)	-
Other	129	2	(48)	46
Other (income) expense	200	(368)	439	47

12. FINANCE (INCOME) EXPENSE

Finance (income) expense comprises the following:

	Three months ended		Nine months ended	
	September 30	September 30	September 30	September 30
	2019	2018	2019	2018
	\$	\$	\$	\$
Interest expense	20	19	53	42
Rehabilitation provision - accretion	27	34	81	101
Post-retirement benefits - accretion	45	-	45	-
Loss (gain) on change in fair value of purchase warrants	(98)	(614)	254	(1,260)
Unrealized loss (gain) on currency hedges	77	(520)	26	(579)
Finance (income) expense	71	(1,081)	459	(1,696)

13. 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 are subsequently carried at fair value or amortized cost. At September 30, 2019, the carrying amounts of VAT Receivables, income taxes recoverable, trade and other payables, VAT payables, and other current assets are considered to be reasonable approximations of their fair values due to the short-term nature of these instruments.

The methods and assumptions used in estimating the fair value of other financial assets and liabilities are as follows:

Embedded derivatives – provisional pricing

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 final settlement weights and assays, which result in an embedded derivative in accounts receivable. The embedded derivative is

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recorded at fair value each reporting period until settlement occurs, with the changes in fair value recorded to revenues.

For the three months ended September 30, 2019, the Company recorded \$5,077 (three months ended September 30, 2018 – \$1,970) in revenues from provisionally priced sales on the statement of loss and comprehensive loss, which are subject to adjustment pending final settlement in the fourth quarter of 2019. As at September 30, 2019, the Company has recorded embedded derivatives in the amount of \$1,755 in trade receivables (as at September 30, 2018 – \$755).

Fair Value Hierarchy

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

		September 30, 2019 \$	Dec 31, 2018 \$
Financial assets			
Fair value through profit and loss			
Marketable securities	Level 1	121	59
Trade receivables	Level 2	2,074	1,926
		<u>2,195</u>	<u>1,985</u>
Financial liabilities			
Fair value through profit and loss			
Forward foreign exchange contracts	Level 3	(286)	(313)
Purchase Warrants	Level 2	589	323
		<u>303</u>	<u>10</u>

There were no transfers between levels 1, 2 or 3 during the three months ended September 30, 2019.

Valuation techniques and inputs used to determine fair values include:

- Marketable securities - the use of quoted market prices or dealer quotes for similar instruments
- Provisional pricing receivables – key inputs are payable metal and future metal prices, marked-to-market based on a quoted forward price and final settlement weights and assays
- Forward foreign currency contracts – present value of future cash flows based on the forward exchange rates at the balance sheet date
- Purchase warrants - based on a Black-Scholes model which uses quoted observable inputs

14. 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.

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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.

15. SEGMENT REPORTING

	MEXICO		CANADA		TOTAL	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
	\$	\$	\$	\$	\$	\$
Property, plant and equipment, right of use asset	22,457	21,747	681	-	23,138	21,747
Capital expenditures	(3,550)	(3,243)	-	-	(3,550)	(3,243)
Mineral rights	1,030	1,161	1,651	1,466	2,681	2,627
Total assets	44,433	42,305	9,889	7,850	54,322	50,155
Total liabilities	11,881	8,719	1,482	1,259	13,363	9,978

	Three months ended		Nine months ended	
	September 30 2019	September 30 2018	September 30 2019	September 30 2018
	\$	\$	\$	\$
MEXICO				
Revenues	5,943	2,570	19,795	18,358
Cost of sales	(6,930)	(6,097)	(20,657)	(17,365)
Exploration	(858)	(1,021)	(2,829)	(2,899)
Other income (expenses)	(189)	415	(395)	(49)
Finance cost	(169)	(48)	(205)	(129)
Income tax recovery (expense)	421	538	(672)	516
Net income (loss)	(1,782)	(3,643)	(4,963)	(1,568)
CANADA				
Corporate administrative expenses	(1,151)	(1,021)	(3,540)	(3,926)
Exploration	-	-	-	117
Other income (expenses)	(11)	(47)	(44)	2
Finance income (cost)	98	1,129	(254)	1,825
Income tax recovery (expense)	(56)	-	(93)	-
Net income (loss)	(1,120)	61	(3,931)	(1,982)
Net Loss	(2,902)	(3,582)	(8,894)	(3,550)