BREAKWATER RESOURCES LTD

Second Quarter Report 2008

Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis of financial condition and results of operations ("MD&A") of Breakwater Resources Ltd. (the "Company") should be read in conjunction with the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2008 and related notes thereto (the "second quarter 2008 financial statements") which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A should also be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2007 and related notes thereto and related annual management's discussion and analysis, and the Annual Information Form on file with the Canadian provincial securities regulatory authorities. Unless otherwise indicated, this MD&A has been prepared as of July 31, 2008. The reporting currency is Canadian dollars ("C$" or "$") and all amounts disclosed are in Canadian dollars unless otherwise indicated. Unless the context indicates otherwise, a reference to the "Company" in this MD&A means Breakwater Resources Ltd. and its subsidiaries and other entities owned or controlled, directly or indirectly, by the Company.

The Company is a mining, exploration and development company which produces zinc, copper, lead and gold concentrates. The Company's concentrate production is derived from mines located in Canada, Chile and Honduras. The Langlois mine, located in Canada, began production in November 2006 and commenced commercial production for accounting purposes on July 1, 2007. The start-up of the Langlois mine affects all aspects of the Company's financial results which makes comparisons between periods difficult.

HIGHLIGHTS

The Company realized net earnings of $8.1 million or $0.02 per share in the second quarter of 2008 compared with $38.7 million or $0.09 per share in the second quarter of 2007. The main items affecting the decrease in net earnings quarter over quarter were:

- $11.7 million higher gross sales revenue primarily due to the impact of Langlois sales, higher concentrate sales at Mochito and Toqui and higher prices for copper, gold and silver partially offset by a 41% reduction in the realized zinc price and a 7% appreciation in the C$ in 2008. In US$ terms, gross sales revenue was US$19.3 million higher
- Sales of concentrate in the second quarter of 2008 increased 87% to 96,536 tonnes primarily due to 17,435 tonnes from Langlois and 8,375 and 19,526 tonnes of greater sales at Mochito and Toqui respectively
- $20.4 million higher direct operating costs primarily due to increased concentrate sales, the addition of sales from Langlois and higher costs for fuel, labour and supplies at Mochito and Toqui
- An increase of $1.5 million in investment and other income primarily due to a realized gain on sale of investments of $7.0 million offset by a lower valuation of conversion rights in certain convertible debentures held by the Company and lower interest income
- $1.5 million increased exploration expenses primarily due to $2.2 million greater exploration expenses at the corporate level related to joint ventures
- An increase of $6.8 million income tax provision due primarily to a $13.1 million reduction in a tax recovery at Langlois offset by a decrease in the tax provisions for Mochito and Toqui

Concentrate produced in the second quarter of 2008 increased by 15% to 86,856 tonnes due to increased production at Langlois, Mochito and Toqui offset by lower production at Myra Falls.

The Company estimated that inventories shipped but not recognized for revenue purposes, at June 30, 2008, had earnings before tax of $5.2 million on 42,493 tonnes of concentrate compared with earnings before tax of $8.4 million on 51,100 tonnes of concentrate at December 31, 2007.

On April 10, 2008, the Company purchased a 3% net smelter return royalty, established in December 2007 at the Myra Falls mine in conjunction with the creation of a qualifying environmental trust, for 13,518,739 Common Shares.

On April 15, 2008, the Company issued 7.0 million Common Shares to acquire Metco Resources Inc. ("Metco") to consolidate its land position in Lebel-sur-Quévillion and to acquire a large under explored land package in the prolific Matagami camp.

Successfully negotiated a new eighteen month contract at Myra Falls in July 2008.

OUTLOOK

Mochito

The mine rehabilitation program, continued to address ground control problems experienced late in 2007 and in the first few months of 2008, continued with the installation of improved ground support media throughout the mine. This initiative is expected to be complete in the third quarter and is not expected to impact on previous production guidance.

Construction work to increase the capacity of the Pozo Azul tailings facility is largely complete and is expected to provide ample capacity while repairs are made to the Soledad facility. Repairs to Soledad are ongoing with completion anticipated late in 2009.

Toqui

The mill capital cost portion of the prefeasibility study was received in late June and the estimated capital cost was significantly higher than originally expected. The study examined the economics related to a new concentrator installation to process 3,000 tonnes per day (essentially double the current mill capacity). Several lower cost alternatives will be evaluated including installing the grinding mills from Bougrine in Tunisia which was closed in September 2005. These mills would increase the milling capacity by approximately 50% and would provide more operational flexibility.

A project to increase hydro generation is being investigated and includes engineering for a third turbine and application for additional water rights. The Company expects Toqui to meet its production targets as previously disclosed.

Myra Falls

During the first quarter of 2008, the Company announced a non-permanent layoff of 132 people. The layoffs took effect late in the second quarter and in the first week of July and resulted in a total mine site workforce of 287. This will bring, at least in the short-term, manpower levels more in line with operating requirements. Collective bargaining continued throughout the quarter and an agreement was reached in early July which was subsequently ratified by the union membership. The agreement lasts for a term of eighteen months, ending in September 2009, and includes a wage increase of 4.5%.

The new senior management team, installed early in the second quarter of 2008, has revised the mine plan for the remainder of the year in order to reduce costs and increase efficiencies. Accordingly, the Company hereby revises its 2008 projected metals production for Myra Falls as follows:

Metal in Concentrate	Contained	Payable
Zinc *(tonnes)*	34,200	29,000
Copper *(tonnes)*	4,900	4,700
Gold *(ounces)*	15,600	11,600
Silver *(ounces)*	698,000	416,000

The capacity of the new tailings facility has been re-evaluated and there is sufficient capacity to use the facilities through 2008 without an additional dam raise.

Langlois

Ramp-up of production continued during the second quarter of 2008. Zinc head grades are forecast to reach targeted values with the commencement, late in the second quarter, of mining in the higher grade Zone 97. Based on results to-date, it is anticipated that Langlois will meet the 2008 guidance numbers.

The establishment of the paste backfill system for Zones 4 and 97 is on target and filling of the first stopes in Zone 97 will commence in August.

STATEMENT OF OPERATIONS REVIEW – THREE AND SIX MONTHS ENDED JUNE 30, 2008 AND 2007

Gross Sales Revenue

Sales of concentrate fluctuate period to period due to production levels, shipping volumes, ship schedules, price determination terms, and risk and title transfer terms with the Company's various customers. The Company has a relatively conservative revenue recognition policy (see below) and the recognition of sales can be as much as six months after the date of concentrate production. The Company's sales are primarily denominated in United States dollars ("US$").

Concentrate Sold	**Second Quarter**		First Six Months	
(tonnes)	**2008**	2007	**2008**	2007
Zinc				
Mochito	**23,137**	11,830	**23,137**	21,154
Toqui	**25,684**	9,192	**46,686**	27,815
Myra Falls	**17,882**	18,020	**27,590**	20,129
Langlois[1]	**14,888**	–	**30,342**	–
	81,591	39,042	**127,755**	69,098
Copper				
Myra Falls	**4,692**	4,907	**9,326**	10,558
Langlois[1]	**2,547**	–	**4,205**	–
	7,239	4,907	**13,531**	10,558
Lead				
Mochito	**3,736**	6,668	**9,339**	9,468
Toqui	**1,418**	–	**1,418**	–
	5,154	6,668	**10,757**	9,468
Gold				
Toqui	**2,552**	936	**3,704**	1,760
Myra Falls	–	–	–	3
	2,552	936	**3,704**	1,763
All Metals	**96,536**	51,553	**155,747**	90,887

(1) Langlois entered commercial production on July 1, 2007. Net cash flow from concentrate produced at Langlois prior to July 1, 2007 reduced preproduction capital expenditures.

	Second Quarter 2008				Second Quarter 2007			
	Concentrate sold *(tonnes)*	**Payable metal[1]**	**Realized price[1]** *(US$)*	**Gross sales revenue** *($000s)*	Concentrate sold *(tonnes)*	Payable metal[1]	Realized price[1] *(US$)*	Gross sales revenue *($000s)*
Zinc	81,591	35,075	2,205	77,339	39,042	16,522	3,710	61,305
Copper	7,239	1,465	7,837	11,482	4,907	1,024	7,460	7,640
Lead	5,154	3,031	2,007	6,082	6,668	4,325	2,058	8,901
Gold[3]	2,552	9,544	902	8,609	936	10,413	668	6,952
Silver	n.a.	603,022	17.09	10,305	n.a.	718,370	13.37	9,601
Other[2]	n.a.			191	n.a.			343
	96,536				51,553			
				114,008				94,742
				1.0100				1.0914
				115,149				103,401

(1) Payable metal and realized prices for zinc, copper and lead are per tonne and for gold and silver are per ounce.

(2) Other gross sales revenue represents revaluations of prior period concentrate receivables.

(3) Tonnes of gold concentrate sale are from Toqui, while payable metal is from all operations.

Concentrate sold increased 87% in the three month period ended June 30, 2008 (the "second quarter of 2008") compared with the three month period ended June 30, 2007 (the "second quarter of 2007"). The 44,983 tonne increase in 2008 was due to sales of 17,435 tonnes of concentrate at Langlois mine and increased sales of 45% at Mochito and 192% at Toqui which were partially offset by 2% fewer tonnes sold at Myra Falls.

In payable metal terms, zinc and copper increased by 112% and 43% respectively in the second quarter of 2008 while lead, gold and silver sold decreased by 30%, 8% and 16% respectively compared with the second quarter of 2007. Realized zinc and lead prices, denominated in US$, decreased by 41% and 2% respectively while copper, gold and silver prices realized increased by 5%, 35% and 28% respectively in the second quarter of 2008.

Gross sales revenue increased by US$19.3 million or 20% in the second quarter of 2008. A stronger C$ resulted in a decrease in the average C$/US$ exchange rate of 7%. In C$ terms, gross sales revenue increased $11.8 million or 11% in the second quarter of 2008 compared with the second quarter of 2007.

The Company's revenue recognition policy requires that, among other things, final pricing of concentrate inventories be known prior to the recognition of revenue. Using commodity prices and exchanges rates prevailing at June 30, 2008, the following schedule provides details regarding inventories shipped but not recognized for revenue purposes and the related provisional payments.

	Concentrate (DMT)	**Net smelter return** *($000's)*	**Inventory value** *($000's)*	**Earnings before taxes** *($000's)*	**Provisional payments** *($000's)*	**Weighted-average months to settlement**
Zinc	31,390	16,392	15,281	1,111	20,742	1.4
Copper	7,606	16,468	14,878	1,590	15,128	3.7
Lead	1,880	4,135	2,688	1,447	4,269	1.0
Gold	1,617	3,160	2,158	1,002	2,286	1.3
	42,493	**40,155**	**35,005**	**5,150**	**42,425**	

As at June 30, 2007, the Company estimated that inventories shipped but not recognized for revenue purposes had earnings before tax of $20.7 million consisting of $51.3 million of net smelter return less $30.6 million of inventory value on 43,245 tonnes of concentrate.

The following table provides the average base and precious metal prices and exchange rates for the periods indicated.

Average Metal Prices & Foreign Exchange Rate	**Second Quarter**		**First Six Months**	
	2008	2007	**2008**	2007
Zinc *(US$/tonne)*	**2,113**	3,664	**2,272**	3,560
Copper *(US$/tonne)*	**8,444**	7,639	**8,119**	6,785
Lead *(US$/tonne)*	**2,305**	2,174	**2,603**	1,979
Gold *(US$/ounce)*	**896**	668	**912**	659
Silver *(US$/ounce)*	**17.17**	13.34	**17.43**	13.33
C$/US$ exchange rate	**1.0099**	1.0981	**1.0073**	1.1347

Treatment and Marketing Costs

Despite 87% more tonnes of concentrate sold, treatment and marketing costs only increased by 63% to $41.2 million in the second quarter of 2008 from $25.3 million in the second quarter of 2007. Treatment and marketing costs for the second quarters of 2008 and 2007 were 36% and 24% of gross sales revenue respectively. The increase in aggregate treatment charges in the second quarter of 2008 was primarily due to the impact of new concentrate sales at Langlois, increased sales at Mochito and Toqui, higher base zinc treatment charges and higher shipping costs partially offset by lower zinc prices and the weakness of the US$. Also refer to each mine's financial results section in this MD&A.

Direct Operating Costs

Direct operating costs were 68% higher in the second quarter of 2008 at $50.6 million up from $30.2 million in the second quarter of 2007. The increased costs were primarily due to the impact of new production at Langlois and greater concentrate sales at Mochito and Toqui. Also see details of direct operating costs under each mine's financial results section in this MD&A.

Depreciation and Depletion

Depreciation and depletion increased $5.8 million in the second quarter of 2008 compared with the corresponding period in 2007. Langlois, which commenced commercial production effective July 1, 2007, was primarily responsible for the increase with depreciation and depletion of $3.3 million in the second quarter of 2008 along with the impact of a higher quantity of concentrate sales at Mochito and Toqui.

General and Administrative

General and administrative expenses increased by $0.7 million to $4.1 million in the second quarter of 2008 compared with 2007. The increase was primarily due to severance costs associated with the acquisition of Metco, a deposit refund in 2007 related to the acquisition of Jascan Resources Inc. in 2000 and higher salaries partially offset by lower corporate development expenses, reduced stock-based compensation and reduced travel.

Investment and Other Income

Investment and other income increased by $1.5 million to $6.4 million in the second quarter of 2008 compared with 2007. The change was primarily due to: a realized gain on sale of investments of $7.0 million plus $0.9 million of royalty income offset by a $5.5 million increase in an unrealized loss on the valuation of conversion rights in a convertible debenture held by the Company and mark-to-market losses on certain equities in public companies, primarily due to lower share prices and $1.0 million lower interest income on lower cash balances.

Foreign Exchange and Other

Foreign exchange and other was a gain of $0.8 million in the second quarter of 2008 compared with a loss of $6.3 million in 2007. The $7.1 million change was primarily due to the impact of an appreciation in the Canadian dollar on high US$ cash balances in 2007, which did not recur in 2008, and fluctuations of the Chilean peso exchange rate versus the US$ in 2008 and 2007.

Exploration

Exploration expenses increased by $1.5 million in the second quarter of 2008. Increased expenses were primarily due to expenses incurred on the Company's joint ventures and at Langlois. These expenditures were partially offset by reduced expenses at Toqui and Myra Falls.

Refer to the exploration section of each mine and the projects section for details of the exploration activities in 2008 and to Note 1 of the Company's 2007 audited consolidated financial statements for the accounting treatment of exploration expenditures.

Exploration Expenses	**Second Quarter**		**First Six Months**	
($ millions)	**2008**	2007	**2008**	2007
Mochito	**0.5**	0.8	**1.0**	1.2
Toqui	**0.2**	0.9	**0.7**	2.1
Myra Falls	**0.6**	1.0	**1.0**	1.8
Langlois	**0.6**	0.0	**2.7**	0.0
Non-operating	**0.3**	0.2	**0.4**	0.5
Corporate	**2.2**	0.0	**3.1**	0.0
Total	**4.4**	2.9	**8.9**	5.6

Income and Mining Tax Provision (Recovery)

In the second quarter of 2008 the Company recorded an income and mining tax provision of $2.1 million compared with a recovery of $4.7 million in the second quarter of 2007. The $6.8 million increase was primarily due to a $13.1 million reduction in an income and mining tax recovery at Langlois in 2007 offset by reduced tax provisions at Mochito of $4.8 million and at Toqui of $2.0 million in 2008.

LIQUIDITY AND FINANCIAL POSITION REVIEW

Working Capital

Working capital at June 30, 2008 was $74.0 million compared with $82.6 million at December 31, 2007, a decrease of $8.6 million.

Current Assets

Total current assets increased by $0.9 million to $194.5 million as at June 30, 2008 compared with $193.6 million at December 31, 2007. The main components of current asset change were:

- Cash and cash equivalents decreased by $18.8 million reflecting lower cash flow from operating activities, expenditures on mineral properties and fixed assets and changes in working capital as described in this section and in the current liabilities section below partially offset by the sale of certain long-term investments
- Concentrate inventory increased by $11.0 million due to 5,535 more tonnes of concentrate in inventory, primarily copper concentrate, which has a higher cost per tonne than other concentrates produced
- Prepaid expenses and other current assets increased by $2.5 million due to an increase of $3.0 million in prepaid exploration for Coulon, $1.3 million of prepaid insurance and $1.1 million of prepaid freight partially offset by decreased stripping costs of $3.4 million

Current Liabilities

Current liabilities increased by $9.5 million to $120.5 million at June 30, 2008 compared with $111.0 million at December 31, 2007. The main components of the current liabilities changes were:

- Provisional payments for concentrate inventory shipped and not priced increased by $10.2 million primarily due to $6.2 million received on a swap contract and a greater quantity of copper concentrate shipped
- Income and mining taxes payable decreased by $5.0 million primarily due to decreased payables of $3.1 million and $2.0 million at Mochito and Toqui respectively

Long-term Investments

At June 30, 2008, long-term investments were $11.1 million, $21.8 million lower than the $32.9 million at December 31, 2007. The decrease was due to sales of certain equities and the marking to market of the conversion rights in a convertible debenture.

On April 2, 2008, the Company gave notice to convert the $17.0 million unsecured convertible debenture from Taseko Mines Limited ("Taseko") for 3,307,393 common shares at a conversion price of $5.14 per share. Taseko issued 2,612,971 freely tradable common shares valued at $13.4 million and withheld 694,422 common shares with a value of $3.6 million as a set off, as set out in a statement of claim, described in note 21(c) of the annual consolidated financial statements for the period ended December 31, 2007. On April 18, 2008, the Company filed an action with the Supreme Court of British Columbia seeking an order that Taseko pay to the Company $3.6 million, being the cash equivalent of the 694,422 shares withheld at a conversion price of $5.14 per share. In May 2008, the Company sold the 2,612,971 shares for $13.4 million net of commission and realized a gain on sale of $8.9 million which comprises $7.7 million which is recognized in the current year and $1.2 million which was recorded in income in prior periods as unrealized gains. The realized gain for the current year includes an amount of $6.5 million of unrealized gains that was included in OCI. The 694,422 shares are included in short-term investments available for sale and are carried at fair value.

Restricted Reclamation Investments

At June 30, 2008 and December 31, 2007, the Company had restricted reclamation investments of $33.5 million. Restricted reclamation investments of $13.5 million and $20.0 million are held under a safe keeping agreement and a trust indenture respectively to fund future reclamation requirements at Myra Falls.

Restricted Promissory Note

The Company held two restricted promissory notes at June 30, 2008 and December 31, 2007 of $62.3 million related to the Red Mile transactions[1] in 2004 and 2005. The interest earned and a portion of the principal of these restricted promissory notes will be used to meet the Company's royalty obligations.

Royalty Obligations

The royalty obligations of $62.5 million at June 30, 2008 relate to the royalty amounts received from the 2004 and 2005 Red Mile transactions. In the second quarter of 2008, the $20.0 million reduction in royalty obligations was due to shares issued to acquire a 3% net smelter return interest at Myra Falls. See restricted promissory note and restricted reclamation investments above.

Reclamation and Closure Cost Accrual

Reclamation and closure costs represent the Company's obligation for reclamation and severance costs accrued for its mine sites. At June 30, 2008, total accrued reclamation and closure costs were $38.5 million compared with $39.7 million at December 31, 2007.

Of the $38.5 million, $5.9 million is classified as current and is expected to be spent over the next 12 months at Nanisivik, Bouchard-Hébert, Bougrine and Myra Falls. The Company incurred expenditures of $1.0 million in reclamation and closure costs in the second quarter of 2008 compared with $1.1 million in the second quarter of 2007. As there is currently no law, regulation or contract in Honduras related to reclamation and closure costs, GAAP does not permit the Company to set up a liability for reclamation at the Mochito mine.

Reclamation and Closure Cost Accrual at June 30, 2008

($ millions)	Current	Long-term	Total
Myra Falls	1.8	27.2	**29.0**
Mochito[(1)]	0.0	1.2	**1.2**
Toqui	0.0	2.5	**2.5**
Langlois	0.0	1.0	**1.0**
Bouchard-Hébert	1.2	0.1	**1.3**
Nanisivik	2.3	0.4	**2.7**
Bougrine	0.6	0.2	**0.8**
Total	**5.9**	**32.6**	**38.5**

(1) Reclamation and closure cost accruals for Mochito relate to accrued severances.

1 For further information on the Red Mile transactions please see the Company's most recent Financial Report filed on SEDAR or available at the Company's website at www.breakwater.ca.

Shareholders’ Equity

Shareholders’ equity at June 30, 2008 was $387.2 million compared with $364.4 million at December 31, 2007. The increase of $22.8 million was primarily due to net earnings of $1.2 million, the issuance of 7.0 million shares on the acquisition of Metco and the issuance of approximately 13.5 million Common Shares on the acquisition of a 3% royalty at Myra Falls partially offset by the renunciation of $2.2 million of flow-through share value and $4.4 million other comprehensive loss.

Shareholders’ Equity *($000’s)*	**Capital stock**	**Warrants**	**Contributed surplus**	**Retained earnings**	**Other comprehen-sive income**	**Total shareholders’ equity**
As at December 31, 2007	188,726	8,540	2,029	168,908	(3,817)	364,386
Shares issued on acquision of Metco, net of expenses	7,264	–	–	–	–	7,264
Share issued on acquisition of the Myra Falls royalty, net of expenses	18,146	–	1,820	–	–	19,966
Value ascribed to options exercised under stock–based compensation	15	–	(15)	–	–	–
Adjustment to flow through share costs	(27)	–	–	–	–	(27)
Renunciation of flow through share value	(2,160)	–	–	–	–	(2,160)
Exercise of warrants	8	(2)	–	–	–	6
Employee share option plan – proceeds of options exercised	26	–	–	–	–	26
Employee share purchase plan	182	–	–	–	–	182
Stock-based compensation	–	–	710	–	–	710
Other comprehensive income	–	–	–	–	(4,383)	(4,383)
Net earnings	–	–	–	1,218	–	1,218
As at June 30, 2008	**212,180**	**8,538**	**4,544**	**170,126**	**(8,200)**	**387,188**

In the first six months of 2008, the Company issued the following Common Shares: 7,000,000 on the acquisition of Metco; 13,518,739 on the acquisition of the Myra Falls royalty; 6,480 on exercise of warrants; 46,667 following the exercise of employee share options and 111,969 pursuant to the Company’s employee share purchase plan.

Capital Expenditures

The Company invested $48.7 million in mineral properties and fixed assets in the first six months of 2008. At mining operations, $14.0 million, $14.1 million, $3.0 million and $16.8 million were spent at Mochito, Toqui, Myra Falls and Langlois respectively. For details of these expenditures, please refer to the financial results discussion for each mine. Corporate capital expenditures of $0.8 million related to $2.0 million of earn-in payments made on joint venture properties in Québec including Coulon, Trieste, Gayote, Gatineau, Weedon and Kaminak were offset by a tax credit of $1.2 million received related to Coulon.

Financial Capability

With the existing working capital, the current metal prices and current US$/C$ exchange rate, the Company expects to be able to carry out its operating, capital, exploration and environmental programs in 2008. The Company’s financial capability is sensitive to operating performance, metal prices, smelter treatment charges and the US$/C$ exchange rate.

PRODUCTION RESULTS

The table below contains the Company's production for periods presented. Production results include the production from Langlois since January 2007. For accounting purposes, production from Langlois was not recognized on the income statement until the commencement of commercial production – July 1, 2007.

All Mines	Second Quarter		First Six Months	
	2008	2007	**2008**	2007
Ore Milled *(tonnes)*	**622,834**	592,301	**1,189,300**	1,139,716
Zinc (%)	**6.5**	5.8	**6.3**	5.8
Concentrate Production *(tonnes)*				
Zinc:				
Mochito	**14,488**	13,927	**27,368**	30,275
Toqui	**16,990**	14,806	**33,280**	30,798
Myra Falls	**16,912**	16,799	**34,351**	30,498
Langlois[1]	**20,210**	13,616	**34,132**	22,375
	68,600	59,148	**129,131**	113,946
Copper:				
Myra Falls	**7,652**	9,532	**13,035**	14,934
Langlois[1]	**3,219**	1,305	**5,246**	2,117
	10,871	10,837	**18,281**	17,051
Lead:				
Mochito	**4,931**	4,130	**9,010**	8,684
Toqui	**1,379**	–	**2,840**	–
	6,310	4,130	**11,850**	8,684
Gold:				
Toqui	**1,075**	1,481	**1,075**	2,810
Total	**86,856**	75,596	**160,337**	142,491
C$ operating costs, production basis *($000s)*	**52,454**	35,713	**110,286**	68,957
C$ operating cost per tonne milled *(production basis)*	**84**	74	**93**	72

[1] First concentrate shipped November 2006 and considered to be at commercial production levels effective July 1, 2007.

The table below provides the Company's metal contained in concentrate produced, before smelting deductions, for periods presented.

Metal in Concentrate	Second Quarter			First Six Months		
	2008	2007	%	**2008**	2007	%
Zinc *(tonnes)*						
Mochito	**7,634**	7,165	7	**14,398**	15,543	(7)
Toqui	**8,247**	7,323	13	**16,410**	15,191	8
Myra Falls	**9,392**	8,915	5	**18,488**	15,868	17
Langlois[1]	**10,835**	7,196	51	**18,208**	11,531	58
	36,108	30,599	18	**67,504**	58,133	16
Copper *(tonnes)*						
Myra Falls	**1,793**	2,196	(18)	**3,072**	3,389	(9)
Langlois[1]	**580**	288	101	**971**	447	117
	2,373	2,484	(4)	**4,043**	3,836	5
Lead *(tonnes)*						
Mochito	**3,231**	2,662	21	**5,925**	5,796	2
Toqui	**648**	–	–	**1,363**	–	–
	3,879	2,662	46	**7,288**	5,796	26
Gold *(ounces)*						
Toqui	**8,217**	6,542	26	**9,610**	20,423	(53)
Myra Falls	**4,128**	5,175	(20)	**8,128**	11,491	(29)
Langlois	**445**	165	170	**733**	299	145
	12,790	11,882	8	**18,471**	32,213	(43)
Silver *(ounces)*						
Mochito	**516,686**	459,829	12	**983,369**	908,215	8
Toqui	**85,775**	27,226	215	**164,510**	49,472	233
Myra Falls	**183,762**	185,433	(1)	**366,571**	515,583	(29)
Langlois[1]	**100,341**	39,963	151	**166,534**	59,048	182
	886,564	712,451	24	**1,680,984**	1,532,318	10

[1] First concentrate shipped November 2006 and considered to be at commercial production levels effective July 1, 2007.

Aggregate production of zinc in concentrate in the second quarter of 2008 was 18% higher at 36,108 tonnes. The increase was primarily due to more tonnes milled at Mochito, Toqui and Langlois partially offset by fewer tonnes milled at Myra Falls. Copper in concentrate produced decreased 4% due to fewer tonnes from Myra Falls partially offset by higher tonnes at Langlois. Production of lead in concentrate rose 46% due to the resumption of lead production at Toqui as well as more tonnes milled at Mochito. Gold in concentrate increased 8% in the second quarter of 2008 from the same period in 2007 due to the processing of the gold-rich Aserradero material at Toqui partially offset by fewer tonnes milled at Myra Falls. Silver in concentrate increased 24% quarter over quarter due to more tonnes milled and higher grades at Mochito, Toqui and Langlois partially offset by lower production at higher silver grades at Myra Falls.

MOCHITO

(i) Mochito Financial Results

	Second Quarter		First Six Months	
	2008	2007	**2008**	2007
Gross sales revenue	**34,311**	38,590	**51,177**	61,532
Treatment and marketing costs	**(11,748)**	(5,745)	**(13,499)**	(7,764)
Net revenue	**22,563**	32,845	**37,678**	53,768
Direct operating costs	**(10,585)**	(7,584)	**(16,651)**	(12,412)
Depreciation and depletion	**(2,440)**	(1,207)	**(3,778)**	(1,918)
Reclamation and closure costs	**(244)**	(99)	**(532)**	(421)
Contribution from mining activities	**9,294**	23,955	**16,717**	39,017
Exploration	**(531)**	(765)	**(967)**	(1,203)
	8,763	23,190	**15,750**	37,814
Income and mining tax provision	**(2,498)**	(7,292)	**(3,992)**	(10,708)
Net earnings	**6,265**	15,898	**11,758**	27,106
Capital expenditures	**9,492**	6,575	**13,956**	9,848

Revenue:

The following tables and discussion provide details of Mochito's gross sales revenue for the periods indicated:

	Second Quarter 2008				Second Quarter 2007			
	Concentrate sold *(tonnes)*	Payable metal[1]	Realized price[1] *(US$)*	Gross sales revenue *($000s)*	Concentrate sold *(tonnes)*	Payable metal[1]	Realized price[1] *(US$)*	Gross sales revenue *($000s)*
Zinc	23,137	10,234	2,147	21,974	11,830	5,107	3,832	19,571
Lead	3,736	2,330	2,050	4,777	6,668	4,325	2,058	8,901
Silver	n.a.	409,557	17.06	6,988	n.a.	490,403	13.37	6,557
Other*(2)*	n.a.			277	n.a.			(404)
	26,873				18,498			
Gross sales revenue in US$				34,016				34,625
Exchange rate				1.0087				1.1145
Gross sales revenue in C$				34,311				38,590

(1) Payable metal and realized prices for zinc and lead are per tonne and for silver is per ounce.

(2) Other gross sales revenue represents revaluations of prior period concentrate receivables.

Zinc sales virtually doubled over the second quarter of 2007 due to certain first quarter 2008 shipments of zinc concentrate being recognized in the second quarter of 2008 as pricing became known pursuant to our revenue recognition policy. This resulted in an increase in total concentrate sold of 45%. The dramatic increase in zinc sales was partially offset by lower lead sales. Notwithstanding the significant increase in zinc sales, total gross sales revenues in US$ terms declined by 2% due to a 44% decline in zinc prices realized and the lower lead sales noted above. In C$ terms gross sales revenue declined 11% due to the weakening US$.

Expenses:

Treatment and marketing costs were higher in the second quarter of 2008 in aggregate terms due to greater zinc concentrate sales, the weakening US$, higher base zinc treatment charges and higher freight costs due to fuel surcharges levied in response to the soaring price of crude oil. Treatment and marketing costs per tonne of concentrate sold in the second quarter of 2008 increased primarily due to higher base zinc treatment charges and certain concentrate sales in the second quarter of 2007 which had flat treatment charges.

Aggregate direct operating costs increased 40% due to the significant increase in tonnes of concentrate sold combined with increased fuel costs, the use of contract miners, the cost of improved ground support and additional safety initiatives. Refer to the discussion of US$ operating costs on a production basis discussed in the production section below.

Exploration expenses in the second quarter of 2008 decreased by $0.2 million to $0.5 million. Refer to the exploration section below for additional details.

Capital Expenditures:

For the first six months of 2008, $14.0 million was spent on capital at Mochito primarily as follows: $3.7 million for mobile equipment; $2.3 million for tailings facilities; $1.1 million for electrical upgrades; $3.1 million for mine development; $0.3 million for definition drilling; and, $3.5 million for various infrastructure projects.

(ii) Mochito Production

Mochito's production is set out in the following table.

	Second Quarter		First Six Months	
	2008	2007	**2008**	2007
Ore Milled *(tonnes)*	**171,808**	151,219	**324,335**	306,403
Zinc *(%)*	**5.0**	5.3	**5.0**	5.7
Lead *(%)*	**2.3**	2.3	**2.2**	2.4
Silver *(g/t)*	**107**	110	**107**	107
Concentrate Production				
Zinc *(tonnes)*	**14,488**	13,927	**27,368**	30,275
Recovery *(%)*	**88.5**	88.7	**88.8**	89.1
Grade *(%)*	**52.7**	51.5	**52.6**	51.4
Lead (*tonnes)*	**4,931**	4,130	**9,010**	8,684
Recovery *(%)*	**82.1**	78.4	**82.0**	78.8
Grade *(%)*	**65.6**	64.5	**65.8**	66.8
Metal in Concentrates				
Zinc *(tonnes)*	**7,634**	7,165	**14,398**	15,543
Lead *(tonnes)*	**3,231**	2,662	**5,925**	5,796
Silver *(ounces)*	**516,686**	459,829	**983,369**	908,215
C$ operating costs, production basis *($000s)*	**9,036**	7,845	**17,651**	15,992
US$ operating costs, production basis *($000s)*	**8,949**	7,140	**17,523**	14,093
C$ operating cost per tonne milled *(production basis)*	**53**	52	**54**	52
US$ operating cost per tonne milled *(production basis)*	**52**	47	**54**	46

Zinc and lead in concentrate produced increased by 7% and 21% respectively in the second quarter of 2008 compared with the same period in 2007 primarily due to milling more tonnes at slightly lower grades. The increase in the tonnes milled for each of the first two quarter of 2008 is due to the focus on production mining as opposed to the necessary focus on development mining in 2007. The lower grades were due to a number of ground control issues experienced during the first and second quarters which required rehabilitation of the affected areas and delayed mining of some higher grade stopes. The ground rehabilitation program put in place during the first quarter continues on high priority areas with dedicated crews to complete this work.

Silver in concentrate increased by 12% due to more tonnes milled at slightly lower grades.

Operating costs on a production basis increased 25% to US$8.9 million in the second quarter of 2008. The US$1.8 million increase was primarily due to: more ore milled; greater power consumption at higher rates; an improved, more expensive method of ground control; higher diesel and lubricant costs; major equipment and mill component overhauls and repairs; new reagents required to extend the capacity of Pozo Azul; and, increased safety training, supervisor training and employee benefits.

During the second quarter, programs initiated earlier in the year to increase pumping capacity, improve underground electrical power distribution and improve the ventilation system, continued.

(iii) Mochito Exploration

The Company continued drilling to identify new mineral resources in several areas of the mine as well as to validate the prospectivity of other areas with older drill information.

Drilling continued during the second quarter in the Santo Niño manto area with the objective of upgrading resources and validating older drill information related to both reserves and resources. Drilling in the second quarter of 2008 in the area of the Santo Niño Chimney continued with a number of drill holes encountering several bands of economic chimney-style mineralization. Likewise, in the eastern area of the Mochito mine, drilling of the Deep North and Deep East areas encountered two areas of chimney-style mineralization as well as an area of manto-style mineralization. This campaign is expected to continue throughout 2008. Drilling at Yojoa Manto continued and economic skarn mineralization was encountered. A number of exploration drill holes at Raton West encountered several bands of economic skarn mineralization. Drilling also commenced on the 2450 level of Salva Vida with a number of drill holes encountering several bands of economic skarn mineralization.

Surface exploration of the Big Fuzzy target has been deferred while the Company continues to refine the exploration model for the Big Fuzzy target. During the first quarter of 2008, strong evidence of skarn alteration as well as mineralization was intercepted within Hole BF-06, which is a step-out hole towards the west. BF-06 represents the first intercept of economic grades and thickness within the Mochito district outside of the area of the mine.

Progress continued on the collection and compilation of basic surface geologic data for the entire Mochito district. First-pass geologic mapping over much of the district has been completed and a detailed soil geochemistry grid across the district – currently in progress – should be completed by the end of the third quarter. At the end of the second quarter, the soil grid was 87% complete with 1,578 samples left to collect. Additional soil geochemical sampling is planned to the east of the current sampling area in light of the recent discovery of old geological information. This extended area could provide important information combined with the BF-06 intercept. An aerial photogrammetric survey of the entire district has been postponed until later in the year due to delays in acquiring Government permission to conduct the flights. The resulting orthorectified aerial photography and detailed topography will assist completion of the geologic mapping and assist in developing a new structural interpretation for the district.

(iv) Mochito Outlook

The mine rehabilitation program, commenced to address ground control problems experienced late in 2007 and in the first few months of 2008, continued with the installation of improved ground support media throughout the mine. This initiative is expected to be complete in the third quarter and is not expected to impact on previous production guidance.

Construction work to increase the capacity of the Pozo Azul tailings facility is largely complete and is expected to provide ample capacity while repairs are made to the Soledad facility. Repairs to Soledad are ongoing with completion anticipated late in 2009.

TOQUI

(i) Toqui Financial Results

	Second Quarter 2008	Second Quarter 2007	First Six Months 2008	First Six Months 2007
Gross sales revenue	**32,193**	19,194	**59,102**	56,420
Treatment and marketing costs	**(13,742)**	(7,057)	**(23,239)**	(21,457)
Net revenue	**18,451**	12,137	**35,863**	34,963
Direct operating costs	**(9,521)**	(2,945)	**(17,683)**	(11,176)
Depreciation and depletion	**(2,326)**	(589)	**(3,974)**	(2,590)
Reclamation and closure costs	**(44)**	(71)	**994**	(146)
Contribution from mining activities	**6,560**	8,532	**15,200**	21,051
Exploration	**(225)**	(916)	**(686)**	(2,100)
	6,335	7,616	**14,514**	18,951
Income and mining tax (provision) recovery	**405**	(1,600)	**(2,407)**	(3,159)
Net earnings	**6,740**	6,016	**12,107**	15,792
Capital expenditures	**6,128**	6,080	**14,074**	10,057

Revenue:

The following tables and discussion provide details of Toqui's gross sales revenue for the periods indicated:

	Second Quarter 2008				Second Quarter 2007			
	Concentrate sold *(tonnes)*	Payable metal[1]	Realized price[1] *(US$)*	Gross sales revenue *($000s)*	Concentrate sold *(tonnes)*	Payable metal[1]	Realized price[1] *(US$)*	Gross sales revenue *($000s)*
Zinc	25,684	10,544	2,251	23,732	9,192	3,772	3,564	13,444
Lead	1,418	701	1,863	1,305	n.a.	n.a.	n.a.	n.a.
Gold	2,552	6,888	899	6,196	936	5,422	663	3,597
Silver	n.a.	42,794	16.98	727	n.a.	1,858	13.15	25
Other[2]	n.a.			(66)	n.a.			746
	29,654				10,128			
Gross sales revenue in US$				31,894				17,812
Exchange rate				1.0094				1.0776
Gross sales revenue in C$				32,193				19,194

(1) Payable metal and realized prices for zinc and lead are per tonne and for silver is per ounce.
(2) Other gross sales revenue represents revaluations of prior period concentrate receivables.

Total concentrate sold in the second quarter of 2008 was 193% higher than in the second quarter of 2007. The dramatic increase in sales of all metals more than offset the significant reduction in zinc prices resulting in a 77% increase in gross sales revenue in US$ terms. The weakening US$ resulted in the increase in gross sales revenue in C$ terms being slightly less at 68%.

Expenses:

Treatment and marketing costs were higher on an aggregate basis due to the significant increase in the quantity of concentrate sold and higher freight costs offset by lower zinc prices, a higher base zinc price at which to calculate the treatment charges and the weakening US$. Treatment and marketing costs declined on a per tonne of concentrate sold basis due to lower zinc prices realized and higher zinc base prices. As a percentage of gross sales revenue, treatment and marketing costs increased to 43% of revenue from 37% in the same period in 2007 primarily due to the lower zinc prices realized.

Direct operating costs in the second quarter of 2008 were higher than in the same period in 2007 primarily due to higher concentrate sales. Direct operating costs as a percentage of gross sales revenue increased to 30% in the second quarter of 2008 from 15% in 2007 due to a lower zinc price partially offset by higher gold and silver prices. On a cost per tonne sold basis, second quarter 2008 costs increased to $321 from $291 in 2007 primarily due to higher costs for fuel and labour. Refer to the discussion of US$ operating costs on a production basis in the production section below.

Depreciation and depletion costs increased in the second quarter of 2008 due to the sale of more tonnes of concentrate.

Exploration expenses decreased in the second quarter of 2008 compared with the same period in 2007 due to reduced expenses related to Concordia and Porvenir. Please refer to the exploration section below for additional details.

The second quarter 2008 income and mining tax was a recovery of $0.4 million compared with an expense of $1.6 million in the second quarter 2007.

Capital Expenditures:

Toqui capital expenditures of $14.1 million in the first six months of 2008 consisted primarily of: $2.7 million for development of Porvenir, Concordia, Estatuas and Aserradero; $3.8 million for mine equipment and buildings; $2.5 million for capitalized exploration at Porvenir, Aserradero North and Concordia East, $1.9 million for a lead flotation circuit, a ball mill overhaul and a thickened tailings plant study; $1.0 million for definition drilling; $0.4 million for the mill pre-feasibility study, and; $0.3 million for housing and a new dry.

(ii) Toqui Production

Toqui's production is set out in the following table.

	Second Quarter		First Six Months	
	2008	2007	**2008**	2007
Ore Milled *(tonnes)*	**132,720**	128,837	**259,813**	258,470
Zinc *(%)*	**7.0**	6.3	**7.1**	6.5
Lead *(%)*	**0.8**	–	**0.9**	–
Gold *(g/t)*	**2.4**	2.0	**1.5**	3.0
Silver *(g/t)*	**27**	9	**27**	9
Concentrate Production				
Zinc *(tonnes)*	**16,990**	14,806	**33,280**	30,798
Recovery *(%)*	**88.7**	88.8	**89.1**	90.0
Grade *(%)*	**48.5**	49.5	**49.3**	49.3
Lead *(tonnes)*	**1,379**	–	**2,840**	–
Recovery *(%)*	**47.0**	–	**48.0**	–
Grade *(%)*	**64.1**	–	**59.7**	–
Gold *(tonnes)*	**1,075**	1,481	**1,075**	2,810
Recovery *(%)*	**55.8**	61.8	**55.8**	59.4
Grade *(g/t)*	**144.0**	89.6	**144.0**	145.6
Metal in Concentrates				
Zinc *(tonnes)*	**8,247**	7,323	**16,410**	15,191
Lead *(tonnes)*	**648**	–	**1,363**	–
Gold *(ounces)*	**8,217**	6,542	**9,610**	20,423
Silver *(ounces)*	**85,775**	27,226	**164,510**	49,472
C$ operating costs, production basis *($000s)*	**6,212**	5,830	**12,826**	11,531
US$ operating costs, production basis *($000s)*	**6,150**	5,296	**12,733**	10,162
C$ operating cost per tonne milled *(production basis)*	**47**	45	**49**	45
US$ operating cost per tonne milled *(production basis)*	**46**	41	**49**	39

Production of zinc in concentrate increased 13% during the second quarter of 2008 compared with the same period in 2007 as more tonnes were milled at higher grades. Zinc grades increased quarter over quarter as higher zinc grade Estatuas material is being blended with higher lead grade Concordia material. Silver head grades also increased due to the addition of Concordia material. The new lead flotation circuit expansion was operational in the second quarter of 2008 and, as expected, improved lead concentrate production.

Production continues in Concordia North and commenced at Concordia South during the second quarter. The Concordia deposits will be an integral part of production in 2008. Development of the accesses for the Porvenir deposit continued.

In the second quarter of 2008, a new change house was commissioned.

Operating costs on a US$ production basis increased 16% to US$6.2 million in the second quarter of 2008. On a cost per tonne milled basis, costs increased by 12% in the second quarter of 2008. The US$0.9 million increase in production costs are primarily due to a 13% increase in the Chilean peso against the US$; a 12% in increase in labour costs associated with the new collective agreement including an 11% inflation indexing adjustment; and, higher power costs due to a 27% increase in diesel costs; and, more diesel generated power due to dryer weather conditions reducing hydro power capacity.

(iii) Toqui Exploration

During the second quarter of 2008, the diamond drill program at Toqui continued with a total of 7,694 metres drilled in 47 holes at the Mina Profunda (or "deeper mine") project and the area west and south of the Estatuas mine. Exploration drilling is a major component of a $4.0 million program for 2008. In total during 2008, 18,950 metres of drilling in more than 109 drill holes have been completed which has resulted in the discovery of new mineralized zones aligned along the known north-west – south-east trend that crosses through the Toqui district as well as confirming the shape of the new Porvenir and Concordia deposits.

At Mina Profunda, two surface diamond drills carried out extensional drilling while one underground drill continued with in-fill drilling in 38 holes totaling 7,064 metres. The drilling to-date continues to confirm the existence of an underlying, 500 metre long by 100 metre wide, north-west/south-east trending gold~cobalt~zinc skarn system hosted within a favourable calcareous sandstone horizon. Mina Profunda is located approximately 60 metres beneath and adjacent to the known deposits of Doña Rosa and Aserradero.

The latest round of drill results from the Mina Profunda project has outlined that the deposit is located between horizons of fluid tuffs – underneath an intrusive rhyolitic sill – containing higher gold grades and lower zinc grades (similar to Aserradero) continuous along a north-west/south-east trend confined between two major north-west striking fault structures. It appears that gold mineralization follows a chemical control. Several studies are currently being carried out to determine relationships with the pre-existing base metal skarn system and to provide guidance for future exploration for these types of deposits within the Toqui district.

Exploration and in-fill drilling has also reported encouraging results in several areas towards the west and south of the Estatuas mine. A total of 630 metres were drilled at the Estatuas mine from underground in nine holes.

(iv) Toqui Outlook

The mill capital cost portion of the prefeasibility study was received in late June and the estimated capital cost was significantly higher than originally expected. The study examined the economics related to a new concentrator installation to process 3,000 tonnes per day (essentially double the current mill capacity). Several lower cost alternatives will be evaluated including installing the grinding mills from Bougrine in Tunisia which was closed in September 2005. These mills would increase the milling capacity by approximately 50% and would provide more operational flexibility.

A project to increase hydro generation is being considered with engineering for a third turbine and application for additional water rights being investigating. The Company expects Toqui to meet its production targets as previously disclosed.

A new warehouse is expected to be commissioned during the third quarter.

MYRA FALLS

(i) Myra Falls Financial Results

	Second Quarter		First Six Months	
	2008	2007	**2008**	2007
Gross sales revenue	**28,622**	45,617	**47,136**	63,396
Treatment and marketing costs	**(8,188)**	(12,509)	**(13,143)**	(16,010)
Net revenue	**20,434**	33,108	**33,993**	47,386
Direct operating costs	**(18,674)**	(19,658)	**(37,064)**	(30,192)
Depreciation and depletion	**(1,674)**	(2,194)	**(2,794)**	(3,535)
Reclamation and closure costs	**(427)**	(402)	**(861)**	(804)
Contribution from mining activities	**(341)**	10,854	**(6,726)**	12,855
Exploration	**(614)**	(1,058)	**(978)**	(1,793)
	(955)	9,796	**(7,704)**	11,062
Income and mining tax provision	**(1,921)**	(1,331)	**(2,867)**	(3,009)
Net (loss) earnings	**(2,876)**	8,465	**(10,571)**	8,053
Capital expenditures	**887**	5,277	**2,967**	11,789

Revenue:

The following tables and discussion provide details of Myra Falls's gross sales revenue for the periods indicated:

	Second Quarter 2008				Second Quarter 2007			
	Concentrate sold *(tonnes)*	Payable metal[1]	Realized price[1] *(US$)*	Gross sales revenue *($000s)*	Concentrate sold *(tonnes)*	Payable metal[1]	Realized price[1] *(US$)*	Gross sales revenue *($000s)*
Zinc	17,882	7,851	2,205	17,309	18,020	7,642	3,702	28,290
Copper	4,692	1,003	7,572	7,597	4,907	1,024	7,460	7,640
Gold	n.a.	2,379	908	2,160	n.a.	4,991	672	3,354
Silver	n.a.	75,373	16.69	1,258	n.a.	226,109	13.36	3,020
Other[2]	n.a.			n.a.	n.a.			1
	22,574				22,927			
Gross sales revenue in US$				28,324				42,305
Exchange rate				1.0105				1.0783
Gross sales revenue in C$				28,622				45,617

(1) Payable metal and realized prices for zinc and copper are per tonne and for gold and silver are per ounce.

(2) Other gross sales revenue represents revaluations of prior period concentrate receivables.

Concentrate sold in the second quarter of 2008 was 2% lower than in the second quarter of 2007. Gross sales revenues for the second quarter of 2008 decreased 33% in US$ terms as a result of the 40% fall in the realized price of zinc. In C$ terms gross sales revenue fell 37% to $28.6 million due to the weakness in the US$.

Expenses:

Treatment and marketing costs were lower in the second quarter of 2008 compared with 2007 primarily due to lower zinc prices which resulted in lower escalators and accordingly lower treatment charges. In the second quarter of 2008, treatment and marketing costs decreased on a per tonne of concentrate sold basis due to lower zinc prices which generate a lower treatment and marketing cost per tonne compared with 2007. As a percentage of gross sales revenue, treatment and marketing costs remained unchanged quarter over quarter.

Direct operating costs in the second quarter of 2008 decreased by $1.0 million or 5% primarily due to lower tonnes of concentrate sold partially offset by higher operating costs. Refer to the discussion of operating costs in a production basis in the production section below.

Exploration expense decreased in the second quarter of 2008 compared with the same period in 2007. Refer to the exploration section below for additional details.

The income and mining tax provision increased by $0.6 million in the second quarter of 2008 primarily due to a $1.7 million reduction of a future tax asset in 2008 compared with a $1.0 million reduction in the second quarter of 2007.

Capital Expenditures:

Myra Falls' capital expenditures of $3.0 million in the first six months of 2008 consisted primarily of $1.1 million for development at Price, $1.5 million for a new tailings disposal area and $0.3 million for mining equipment.

(ii) Myra Falls Production

Myra Falls' production is set out in the following table.

	Second Quarter		First Six Months	
	2008	2007	**2008**	2007
Ore Milled *(tonnes)*	**164,707**	202,930	**334,889**	388,326
Zinc *(%)*	**6.7**	5.1	**6.4**	4.8
Copper *(%)*	**1.4**	1.4	**1.2**	1.1
Gold *(g/t)*	**1.3**	1.2	**1.2**	1.4
Silver *(g/t)*	**44**	35	**43**	49
Concentrate Production				
Zinc *(tonnes)*	**16,912**	16,799	**34,351**	30,498
Zinc Recovery *(%)*	**86.2**	85.4	**86.7**	85.6
Zinc Grade *(%)*	**55.5**	53.0	**53.8**	52.0
Gold Recovery *(%)*	**23.9**	20.2	**25.4**	20.3
Gold Grade *(g/t)*	**2.9**	3.0	**3.0**	3.7
Copper *(tonnes)*	**7,652**	9,532	**13,035**	14,934
Copper Recovery *(%)*	**77.0**	80.0	**75.3**	77.7
Copper Grade *(%)*	**23.4**	23.0	**23.6**	22.7
Gold Recovery *(%)*	**36.7**	41.5	**36.2**	43.1
Gold Grade *(g/t)*	**10.2**	11.1	**11.4**	15.9
Metal in Concentrates				
Zinc *(tonnes)*	**9,392**	8,915	**18,488**	15,868
Copper *(tonnes)*	**1,793**	2,196	**3,072**	3,389
Gold *(ounces)*	**4,128**	5,175	**8,128**	11,491
Silver *(ounces)*	**183,762**	185,433	**366,571**	515,583
C$ operating costs, production basis *($000s)*	**21,606**	22,038	**50,046**	41,434
C$ operating cost per tonne milled *(production basis)*	**131**	109	**149**	107

Production of zinc in concentrate was 5% higher in the second quarter of 2008 compared with the same period in 2007 as a 29% higher zinc grade and higher recoveries were partially offset by 19% fewer tonnes milled. Copper concentrate production in the second quarter of 2008 was lower than the same period in 2007 due to fewer tonnes milled at the same copper grade.

Despite 19% fewer tonnes milled, operating costs on a production basis decreased by only $0.4 million or 2% in the second quarter of 2008. The decreased costs were primarily due to lower tonnes milled partially offset by higher costs associated with mining the final portions of the Lynx pit, higher costs due to reduced hydro generation and higher diesel costs.

Milled material was lower in the second quarter of 2008 from the same period in 2007 due to a revision of the mine plan in order to reflect the reduced manpower, minimize dilution and provide higher grade material to the mill.

(iii) Myra Falls Exploration

Hole MR15-0015 on the Marshall Zone intersected 7.5 metres grading 6.47% Zn, 0.46% Cu, 0.36% Pb, 1.1 g/t Au, and 83.6 g/t Ag. The hole confirms that the Marshall Zone extends to the west of current drilling. Future exploration plans for the Marshall zone are being evaluated. Long holes such as MR15-0015 require a great deal of time to drill and are too costly to be used to upgrade the existing resource.

Other drilling activities focused on those areas close to existing workings. The Gopher, Gnu West, and Upper HW East Zones were all extended along strike. The Gap North orebody was discovered and defined in the second quarter. It is a smaller zone of moderate grade situated approximately 100 metres to the north of the Gap orebody and is open on both ends. Drilling will continue to focus on identifying additional reserves in the immediate vicinity of mine workings.

(iv) Myra Falls Outlook

During the first quarter of 2008, the Company announced a non-permanent layoff of 132 people. The layoffs took effect late in the second quarter and in the first week of July and resulted in a total mine site workforce of 287. This will bring, at least in the short-term, manpower levels more in line with operating requirements. Collective bargaining continued throughout the quarter and an agreement was reached in early July which was subsequently ratified by the union membership. The agreement lasts for a term of eighteen months, ending in September 2009, and includes a wage increase of 4.5%.

The new senior management team, installed early in the second quarter of 2008, has revised the mine plan for the remainder of the year in order to reduce costs and increase efficiencies. Accordingly, the Company hereby revises its 2008 projected metals production for Myra Falls as follows:

Metal in Concentrate	Contained	Payable
Zinc *(tonnes)*	34,200	29,000
Copper *(tonnes)*	4,900	4,700
Gold *(ounces)*	15,600	11,600
Silver *(ounces)*	698,000	416,000

The capacity of the new tailings facility has been re-evaluated and there is sufficient volume to use the facilities through 2008 without an additional dam raise. Work on the under drain system will proceed later in 2008.

LANGLOIS

(i) Langlois Financial Results

	Second Quarter		First Six Months	
	2008	2007	**2008**	2007
Gross sales revenue	**20,023**	–	**39,590**	–
Treatment and marketing costs	**(7,489)**	–	**(12,302)**	–
Net revenue	**12,534**	–	**27,288**	–
Direct operating costs	**(11,817)**	–	**(27,165)**	–
Depreciation and depletion	**(3,336)**	–	**(6,414)**	–
Reclamation and closure costs	**(20)**	(27)	**(40)**	(54)
Contribution from mining activities	**(2,639)**	(27)	**(6,331)**	(54)
Exploration	**(568)**	–	**(2,703)**	–
	(3,207)	(27)	**(9,034)**	(54)
Income and mining tax recovery	**1,709**	14,825	**4,716**	14,342
Net earnings (loss)	**(1,498)**	14,798	**(4,318)**	14,288
Capital expenditures	**6,240**	13,330	**16,825**	22,763

Revenue:

Langlois was considered to be in commercial production effective July 1, 2007. For accounting purposes, revenue from concentrate produced and sold after commencement of commercial production is included in the income statement. Net cash flow from concentrate produced prior to July 1, 2007 reduced preproduction capital expenditures when sold.

The following tables and discussion provide details of Langlois' gross sales revenue for the period indicated:

Second Quarter 2008				
	Concentrate sold *(tonnes)*	Payable metal[1]	Realized price[1] *(US$)*	Gross sales revenue *($000s)*
Zinc	14,888	6,447	2,222	14,324
Copper	2,547	462	8,411	3,885
Silver	n.a.	75,298	17.70	1,332
Gold	n.a.	277	914	253
Other[2]	n.a.			(20)
	17,435			
Gross sales revenue in US$				19,774
Exchange rate				1.0126
Gross sales revenue in C$				20,023

[1] Payable metal and realized prices for zinc and copper are per tonne and for gold and silver are per ounce.
[2] Other gross sales revenue represents revaluations of prior period concentrate receivables.

Expenses:

For the second quarter of 2008, treatment and marketing costs were $7.5 million or 37% of gross sales revenue and $430 per tonne of concentrate sold. Direct operating costs in the second quarter of 2008 were $11.8 million or 59% of gross sales revenue and $678 per tonne of concentrate sold.

Depreciation and depletion were $3.3 million in the second quarter of 2008. The carrying value of Langlois is higher than the Company's other mines and therefore depreciation and depletion will tend to be higher.

Prior to the commencement of commercial production, exploration expenditures were capitalized. In the second quarter of 2008 a $0.6 million exploration expense was incurred. Refer to the exploration section below for additional details.

Income and mining tax recovery of $1.7 million in the second quarter of 2008 primarily relates a $1.4 million tax reduction in the Québec mining duty liability and $0.3 million increase in future tax assets.

Capital Expenditures:

At Langlois, $16.8 million was spent on capital expenditures in the first six months of 2008 primarily on: $7.9 million of lateral development for Zones 97, 4 and 3; $1.8 million of horizontal and other development at Zone 4, $1.7 million of ramp and horizontal development at Grevet B; $2.9 million for underground equipment; $0.6 million for housing; $0.6 million for underground paste backfill infrastructure; and, $0.4 million for a road for the paste backfill line to Zone 97.

(ii) Langlois Production

Langlois' production is set out in the following table.

	Second Quarter		First Six Months	
	2008	2007	**2008**	2007
Ore Milled *(tonnes)*	**153,599**	109,315	**270,263**	186,517
Zinc *(%)*	**7.6**	7.2	**7.3**	6.9
Copper *(%)*	**0.5**	0.4	**0.5**	0.4
Silver *(g/t)*	**39**	32	**36**	30
Concentrate Production				
Zinc *(tonnes)*	**20,210**	13,616	**34,132**	22,375
Recovery *(%)*	**92.7**	91.4	**92.5**	89.8
Grade *(%)*	**53.6**	52.6	**53.4**	51.4
Copper *(tonnes)*	**3,219**	1,305	**5,246**	2,117
Recovery *(%)*	**76.6**	67.8	**76.8**	65.1
Grade *(%)*	**18.0**	22.1	**18.5**	21.1
Metal in Concentrates				
Zinc *(tonnes)*	**10,835**	7,196	**18,208**	11,531
Copper *(tonnes)*	**580**	288	**971**	447
Gold *(ounces)*	**445**	165	**733**	299
Silver *(ounces)*	**100,341**	39,963	**166,534**	59,048
C$ operating costs, production basis *($000s)*	**15,600**	n.a.	**29,763**	n.a.
C$ operating cost per tonne milled *(production basis)*	**102**	n.a.	**110**	n.a.

Zinc and copper metal in concentrate production increased by 51% and 101% respectively in the second quarter of 2008 compared with the same period in 2007 primarily due to a 41% increase in tonnes milled and increased grades and recoveries for both zinc and copper.

During April 2008, the development of the Zone 4 surface ramp was halted to reduce costs and because mineralized material in the upper portions of Zone 4 that was originally to be accessed using the ramp had not been included in the production plans in either 2008 or 2009.

Production continued during the quarter at Grevet B. Water inflow problems have been mitigated. The development of the ramp to access the bottom portion of the Grevet B deposit was halted during the first quarter. The ramp development will be re-evaluated during the fourth quarter of 2008. Should zinc prices improve by that time, it is estimated that it will take approximately two months to complete the ramp development and access the remaining ore.

iii) Langlois Exploration

During the second quarter of 2008, one drill rig, operating from underground, focused on delineating the mineralization limit below level 134 at Grevet B. A total of 737 metres were completed prior to a general cessation of drilling that was instituted early in the second quarter. Results show the mineralization envelope more or less where it was expected. Due to this, the drilling program at Grevet B has been stopped.

For the third quarter for 2008, two underground drill rigs are planned to be active in Langlois mine (from 13 level) in order to infill drill in the central part of Zone 97 where the economic part of the north vein is located. This will enable an evaluation of the mining opportunities for the Zone 97 main and north areas.

During the second quarter of 2008, one drill operated on surface and focused on delineating new resources at Orphée. On the Orphée lens, 525 metres were drilled in two holes. The holes were focused on delineating the western part of the lens. During the quarter, the Company completed the acquisition of Metco. Consequently, Metco's data is being merged with the Company's in order to be able to assess the quality of the Orphée system. A complete resource estimate, including the recent calculation carried out by Scott Wilson Roscoe Postle over the part of the lens previously owned by Metco, is scheduled for delivery during the third quarter of 2008.

On Zone 5, new drilling is warranted to enable a proper assessment of the full potential of the zone. Additional diamond drilling is scheduled for the third quarter of 2008 to delineate the bulk sampling area near surface and a resource estimate will then be performed.

(iv) Langlois Outlook

Ramp-up of production continued during the second quarter of 2008. Zinc head grades are forecast to reach targeted values with the commencement, late in the second quarter, of mining in the higher grade Zone 97. Based on results to-date, it is anticipated that Langlois will meet the 2008 guidance numbers.

The establishment of the paste backfill system for Zones 4 and 97 is on target and filling of the first stopes in Zone 97 will commence in August.

During the first quarter of 2008, a miner training school was established in Lebel-sur-Quévillion in conjunction with Employment Quebec and the Baie James School Board. The initial enrolment totals 16 students who are participating in a 26 week common core miner training program. The underground portions of the training are being conducted at the Langlois mine. The first group of students are expected to complete the course by early August. At that time, a second group of 20 trainees will commence their course with a third group of 32 trainees scheduled for early 2009. Once they graduate, the trainees will have training as development and stope miners and will be eligible to continue to work at Langlois under the supervision of experienced miners. The eventual goal is to provide a fully trained workforce for the Langlois operation which will eventually replace the contract miners currently on site.

On April 15, 2008, the Company purchased 100% of Metco for 7.0 million Common Shares of the Company. The transaction enabled the Company to consolidate its land position in the Lebel-sur-Quévillion camp, gain entry into a large and prospective land package in the Matagami camp and also secure potential additional feed for the Langlois mill.

Coulon Project

During the second quarter of 2008, Virginia Mines Inc. ("Virginia") continued drilling on the Coulon property, located in the James Bay region of Québec which the Company owns 50% of through a joint venture agreement. The Coulon joint venture property consists of 3,266 claims covering more than 90 kilometres of the prospective Coulon volcanic belt. Three deep drilling rigs and a fourth heliborne rig continue to focus on delineating additional resources within lenses 43, 08-44 and 9-25 as well as exploring for new drill targets on a regional scale.

Drill results released by Virginia in 2008 indicated continuity of the Coulon mineralized system over more than 20 kilometres along strike. Lens 8 has been confirmed over a lateral distance of 250 metres and a vertical depth of 700 metres and is still open at depth. Recent drilling has proven the presence of a new lens at depth. This seventh new lens at Coulon, named 08W, is located nearly 150 metres to the west of lens 8 and at a vertical depth of 750 to 800 metres. Lens 08W has been traced over a lateral distance of 200 metres and a vertical depth of 300 metres. The exact relationship with Lens 8 is not yet defined. Accordingly, this will be the target of additional drilling in 2008.

Lens 9-25 has also been the focus of additional drilling. Recent drilling has enhanced the known mineralization by 60 metres to the north and at depth. Lens 9-25 has been confirmed over a lateral distance of 275 metres and a vertical depth of more than 600 metres and is still open at depth. It will be the focus of additional drilling in 2008.

The exact relationship between lenses 08, 08W and 9-25 is not well understood, up to the point that Lens 9-25 dips very steeply (85 degrees) to the west and Lens 08 dips vertically to very steeply (85 degrees) to the east. Lens 08W seems to be dipping vertically.

During the third quarter, the main focus will be to verify the relationship at depth between lenses 08, 08W, 9-25 and 44.

Gayot Project

During the second quarter of 2008, Virginia started its reconnaissance and geological mapping of the Lac Gayot property, located in the James Bay region of Québec. Under an agreement reached in 2007, the Company has the sole and exclusive right and option to earn a 50% interest in the property in exchange for $10 million in exploration work over a 9-year period and payments totalling $170,000 on or before the 4th anniversary of the agreement. Virginia will be the operator until the completion of a positive pre-feasibility study. This agreement is subject to a 1% NSR in favour of Billiton Resources Canada.

The Lac Gayot property consists of 116 claims covering 4,947.12 hectares and three mining exploration permits covering a surface area of 15,437 hectares. The property entirely covers the Venus Archean greenstone belt which consists dominantly of ultramafic MgO-rich sills and flows. This ultramafic sequence is the host to twelve nickel-platinum-palladium mineralized zones distributed over a strike length of 25 kilometres.

A new camp was constructed in the second quarter of 2008 to permit field operations for a long duration. Surface mapping and prospecting was conducted during the second quarter as well as relogging of some of the old core.

Trieste Project

During the first and second quarter of 2008, Virginia carried out ground geophysical surveys on the Trieste property in order to pinpoint past airborne EM anomalies. The interpretation of the survey is still in progress. Under an agreement reached in 2007, the Company has the sole and exclusive right and option to earn a 50% interest in the property in exchange for $1 million in exploration work over a four year period and payments totalling $50,000 on or before the 1st anniversary of the agreement. Virginia will be the operator until the completion of a positive pre-feasibility study.

The Trieste property is located within the La Grande Archean volcano-sedimentary belt and covers an assemblage of mafic to felsic volcanics, iron formations, and a synvolcanic intrusion. Many electromagnetic (EM) conductors remain unexplained and VMS-type, mineralized showings returned values of up to 2.6% Zn within the volcanic sequence. An arsenopyrite-rich boulder also returned 20 g/t Au. The property consists of 290 claims covering more than 14,000 hectares.

Gatineau Project

In 2007, the Company signed a letter agreement with Midland Exploration Inc. (“Midland”) for the Gatineau zinc properties, which are currently held 100% by Midland. The properties are located approximately 200 kilometres northwest of the city of Montreal. The Company has the option to acquire 50% of Midland’s interest by funding $4.5 million in exploration expenditures and by making payments totalling $250,000 over four years. Midland will be the operator until the completion of a positive pre-feasibility study. Upon acquiring a 50% interest, the Company will have the option to acquire an additional 15% interest by delivering a bankable feasibility and by paying to Midland $40,000 per year and by having minimum work expenditures on the property of $200,000 per year until the delivery of the bankable feasibility study.

Midland’s large land position, including 19 new properties, covers 347.6 km^2 distributed in the Gatineau Area. The area is known to host many significant zinc occurrences and prospects in metamorphosed Middle-Proterozoic marbles of the Grenville Supergroup. The interest for this area is that those zinc occurrences share many similarities with significant zinc deposits which are also hosted in Grenville metamorphosed limestones. The most prolific zinc deposits of this type are those of the Balmat-Edwards district in the United States, located only 60 kilometres south of the Gatineau properties area. This active mining district, in production since 1915, is known to host a combined 43 million tonnes at near 10% zinc including other commodities.

During the second quarter of 2008, a follow up on the geochemical survey results obtained last fall was undertake by Midland. On the soil samples collected over the Wallace, Venosta, Kazabazua, St-Germain, Kilmar, Ski, Davis and Leitch claim blocks, an examination of the assays has identified several first-order strong zinc and lead anomalies on Leitch, Wallace, Ski and St-Germain properties. A field check program is scheduled during the summer.

Also, the VTEM coverage of the property continued during the quarter. The results are presently being processed and a report should be available during the third quarter.

Weedon Project

In 2007, the Company signed a letter agreement with Midland for the Weedon property, which is currently held 100% by Midland. The property is located in the Eastern Townships area, about 120 kilometres south of Québec City.

The Weedon property consists of 340 claims totalling 163 km^2 and covers more than 30 kilometres of the Ascot-Weedon volcano-sedimentary belt. The Ascot-Weedon belt hosts several mined out volcanogenic massive sulphide (VMS) deposits, including former mines Cuprad’Estrie (2.43 Mt at 2.74% Cu, 3.28% Zn, 38 g/t Ag and 0.5 g/t Au), Solbec (2.06 Mt at 1.57% Cu, 4.57% Zn, 0.68% Pb, 48.6 g/t Ag and 0.61 g/t Au) and Weedon (1.6 Mt at 2.33% Cu, 0.86% Zn and 0.56 g/t Au). The belt is composed of Lower Ordovician mafic and felsic volcanic rocks of mixed tholeiitic and calc-alkaline affinity. Many similarities can be established between this belt and other prolific VMS mining camps, namely Bathurst in New Brunswick and Buchans in Newfoundland.

The Company may acquire 50% of Midland’s interest by funding $3.0 million in exploration expenditures and by making payments totalling $200,000 over three years. Midland will be the operator until a positive pre-feasibility study is completed. Upon acquiring a 50% interest, the Company may acquire an additional 15% interest by delivering a bankable feasibility study and by paying Midland $40,000 per year. Additionally, the Company needs to spend a minimum of $200,000 per year in exploration work on the property until the bankable feasibility study is delivered.

During the second quarter of 2008, a VTEM airborne survey was carried out designed to delineate, at close spacing, the new conductive zones previously identified with the first VTEM survey performed last fall. These new conductors were detected on several flight lines and have a good magnetic association, typical of most massive sulphide deposits, and will be verified by diamond drilling. Planned drill holes should test these targets at vertical depths ranging from 100 to 200 metres. One hole will also be drilled along the southwestern extension of the former Weedon mine to test an iron formation horizon along the favourable contact, at about 200 metres vertical depth.

The drilling campaign will continue through out the third quarter.

Other Properties

The reclamation work is largely complete at Bouchard-Hébert and Bougrine with Nanisivik expected to be largely reclaimed by the end of 2008. The crushing and grinding circuits and certain other components at Bougrine remain intact and dismantling of the mill at Bouchard-Hébert is continuing.

NON-GAAP RECONCILIATIONS

Operating cost per tonne milled on a production basis is a performance indicator. It is a non-GAAP measure and because there is no standard method for calculating it, operating costs per tonne milled on a production basis is not a reliable way to compare the Company against other companies. It can however allow an understanding of how production costs have changed from year to year and the impact on cash flows.

Three month period ended June 31, 2008

($000s)	Mochito	Toqui	Myra Falls	Langlois	Total
Direct operating costs per financial statements	10,585	9,521	18,674	11,817	50,597
Adjustment to production basis	(1,544)	(2,945)	3,045	3,801	2,357
Less: stock-based compensation	(5)	(40)	(113)	(18)	(176)
Less: royalties	n.a.	(324)	n.a.	n.a.	(324)
Operating costs on a production basis (C$)	9,036	6,212	21,606	15,600	52,454
Average exchange rate	1.0097	1.0100	1.0106	1.0096	1.0101
Operating costs on production basis (US$)	8,949	6,150	21,379	15,452	51,930
Tonnes milled, production basis	171,808	132,720	164,707	153,599	622,834
Operating cost per tonne milled – US$	52	46	130	101	83
Operating cost per tonne milled – C$	53	47	131	102	84

Three month period ended June 30, 2007

($000s)	Mochito	Toqui	Myra Falls	Langlois[(1)]	Total
Direct operating costs per financial statements	7,584	2,945	19,658	n.a.	30,187
Adjustment to production basis	295	3,463	2,486	n.a.	6,244
Less: stock-based compensation	(34)	(41)	(106)	n.a.	(181)
Less: royalties	n.a.	(537)	n.a.	n.a.	(537)
Operating costs on production basis (C$)	7,845	5,830	22,038	n.a.	35,713
Average exchange rate	1.0988	1.1008	1.1041	n.a.	1.1021
Operating costs on a production basis (US$)	7,140	5,296	19,960	n.a.	32,396
Tonnes milled	151,219	128,837	202,930	109,315	592,301
Less: preproduction tonnes	n.a.	n.a.	n.a.	109,315	109,315
Tonnes milled, production basis	151,219	128,837	202,930	n.a.	482,986
Operating cost per tonne milled – US$	47	41	98	n.a.	67
Operating cost per tonne milled – C$	52	45	109	n.a.	74

(1) First concentrate shipped November 2006 and considered to be at commercial production levels effective July 1, 2007.

Six month period ended June 30, 2008

($000s)	Mochito	Toqui	Myra Falls	Langlois	Total
Direct operating costs per financial statements	16,651	17,683	37,064	27,165	98,563
Adjustment to production basis	1,035	(4,082)	13,187	2,630	12,770
Less: stock-based compensation	(35)	(99)	(205)	(32)	(371)
Less: royalties	n.a.	(676)	n.a.	n.a.	(676)
Operating costs on a production basis (C$)	17,651	12,826	50,046	29,763	110,286
Average exchange rate	1.0073	1.0073	1.0073	1.0073	1.0073
Operating costs on production basis (US$)	17,523	12,733	49,683	29,547	109,486
Tonnes milled, production basis	324,335	259,813	334,889	270,263	1,189,300
Operating cost per tonne milled – US$	54	49	148	109	92
Operating cost per tonne milled – C$	54	49	149	110	93

Six month period ended June 30, 2007

($000s)	Mochito	Toqui	Myra Falls	Langlois[1]	Total
Direct operating costs per financial statements	12,412	11,176	30,192	n.a.	53,780
Adjustment to production basis	3,685	1,622	11,569	n.a.	16,876
Less: stock-based compensation	(105)	(140)	(327)	n.a.	(572)
Less: royalties	n.a.	(1,127)	n.a.	n.a.	(1,127)
Operating costs on production basis (C$)	15,992	11,531	41,434	n.a.	68,957
Average exchange rate	1.1347	1.1347	1.1347	n.a.	1.1347
Operating costs on a production basis (US$)	14,093	10,162	36,515	n.a.	60,770
Tonnes milled	306,403	258,470	388,326	186,517	1,139,716
Less: preproduction tonnes	n.a.	n.a.	n.a.	186,517	186,517
Tonnes milled, production basis	306,403	258,470	388,326	n.a.	953,199
Operating cost per tonne milled – US$	46	39	94	n.a.	64
Operating cost per tonne milled – C$	52	45	107	n.a.	72

[1] First concentrate shipped November 2006 and considered to be at commercial production levels effective July 1, 2007.

SUMMARY OF QUARTERLY RESULTS

	2006 Q3	2006 Q4	2007 Q1	2007 Q2	2007 Q3	2007 Q4	**2008 Q1**	**2008 Q2**
Gross sales revenue *($ millions)*	112.0	158.3	77.9	103.4	87.5	135.5	**81.9**	**115.1**
Net earning (loss) *($ millions)*	39.2	50.4	15.3	38.7	7.8	(35.4)	**(6.9)**	**8.1**
Basic earnings (loss) per share	$0.10	$0.13	$0.04	$0.09	$0.02	$(0.08)	**$(0.02)**	**$0.02**
Weighted-average number of Common Shares outstanding (millions)	384.3	384.3	396.4	418.0	418.7	421.6	**425.8**	**446.4**
Diluted earnings (loss) per share	$0.09	$0.12	$0.04	$0.09	$0.02	$(0.08)	**$(0.02)**	**$0.02**
C$/US$ realized exchange rate	1.1187	1.1422	1.1683	1.0914	1.0374	0.9987	**1.0047**	**1.0100**
Average realized zinc price (US$/t)	3,363	4,227	3,434	3,710	3,200	2,608	**2,409**	**2,205**
Average realized zinc price (C$/t)	3,762	4,828	4,012	4,049	3,320	2,605	**2,420**	**2,227**
Concentrate tonnes sold [1]	61,385	73,231	39,333	51,553	50,748	102,415	**59,210**	**96,536**
Concentrate tonnes produced [1]	59,420	67,057	66,895	75,596	73,122	72,470	**73,481**	**86,856**

[1] Langlois commenced commercial production effective July 1, 2007. Included in concentrate produced in Q4 2006, Q1 2007 and Q2 2007 were 4,255, 9,571 and 14,921 tonnes respectively which are not included in concentrate tonnes sold.

The quantity and mix of concentrates sold directly affects gross sales revenue. The recognition of revenue from the sale of concentrate can vary from quarter to quarter for the reasons discussed in the "Gross Sales Revenue" section of this MD&A. As all sales are based in US$, the US$'s general weakening against the C$ over the past eight quarters has reduced the realized C$ gross sales revenue.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The notes to the Company's December 31, 2007 audited consolidated financial statements outline the Company's significant accounting policies. Note 2 to the unaudited consolidated second quarter 2008 financial statements describes changes to the Company's accounting policies. Pages 32 and 33 of the 2007 Financial Report contain a discussion of certain accounting estimates that are considered particularly important, as they require management to make significant judgments, some of which relate to matters that are inherently uncertain. Readers are encouraged to refer to the 2007 Financial Report to review that discussion.

RISKS, UNCERTAINTIES AND OTHER INFORMATION

Readers are encouraged to read and consider the risk factors, and additional information regarding the Company, included in its most recent Annual Information Form filed with the Canadian securities regulators, a copy of which is posted on the SEDAR website at www.sedar.com.

OUTSTANDING SHARE DATA AND FULL DILUTION CALCULATION

The Company is authorized to issue an unlimited number of Common Shares and 200,000,000 preferred shares, issueable in series. There are no preferred shares outstanding. Each Common Share entitles the holder of record thereof to one vote at all meetings of shareholders of the Company, except at meetings at which only holders of another class or series of shares of the Company are entitled to vote. The table set forth below summarizes the Capital Stock. For a more complete description of certain elements please refer to note 14 to the 2007 audited consolidated financial statements of the Company.

Common Shares or Securities Convertible into Common Shares	**July 31, 2008**
Issued and outstanding	446,384,020
Share options outstanding weighted-average exercise price $1.22	7,804,474
Warrants granted at $1.00, expire January 28, 2009 – traded on TSX	33,481,849
Future fully diluted	**487,670,343**

CAUTION ON FORWARD-LOOKING INFORMATION

This report contains certain statements which constitute forward-looking information. These forward-looking statements are not descriptive of historical matters and may refer to management's expectations or plans. These statements include but are not limited to statements concerning the Company's business objectives and plans; future trends in the Company's industry; future production costs and volumes; mineral grades, reserve and resource estimates and types; sales volumes and realized prices; capital spending plans; exploration plans; expansion plans; expected market fundamentals and prices; availability of equipment and supplies; expected plant availability; success of process changes; the Company's processing technologies; global economic growth and industrial demand; production of base metal concentrates by the Company's operations; future metal prices and treatment charges; future royalties payable; changes in global metal and concentrate inventories; currency exchange rates; costs of energy, materials and supplies; the outcome of disputes and legal proceedings in which the Company is involved; future effective tax rates; and future benefits costs.

Inherent in forward-looking statements are risks and uncertainties beyond the Company's ability to predict or control, including risks that may affect the Company's operating or capital plans, including risks generally encountered in the development and operation of mineral properties and processing facilities such as unusual or unexpected geological formations, unanticipated metallurgical difficulties, ground control problems, process upsets and equipment malfunctions; risks associated with labour disturbances and unavailability of skilled labour; fluctuations in the market prices of the Company's principal products, which are cyclical and subject to substantial price fluctuations; risks created through competition for mining properties; risks associated with lack of access to markets; risks associated with mineral and resource estimates, including the risk of errors in assumptions or methodologies; risks posed by fluctuations in exchange rates and interest rates, as well as general economic conditions; risks associated with environmental compliance and permitting, including those created by changes in environmental legislation and regulation; risks associated with the Company's dependence on third parties in the provision of transportation and other critical services; risks associated with aboriginal title claims and other title risks; social and political risks associated with operations in foreign countries; and risks associated with legal proceedings.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, the following assumptions: that there is no material deterioration in general business and economic conditions; that there is no unanticipated fluctuation of interest rates and foreign exchange rates; that the supply and demand for, deliveries of, and the level and volatility of prices of zinc, copper, gold, lead and silver and the Company's other primary metals and minerals develop as expected; that the Company receives regulatory and governmental approvals for its development projects and other operations on a timely basis; that the Company is able to obtain financing for its development projects on reasonable terms; that there is no unforeseen deterioration in the Company's costs of production or production and productivity levels; that the Company is able to continue to secure adequate transportation for its products; that the Company is able to procure mining equipment and operating supplies (including tires) in sufficient quantities and on a timely basis; that engineering and construction timetables and capital costs for the Company's development and expansion projects are not incorrectly estimated or affected by unforeseen circumstances; that costs of closure of various operations are accurately estimated; that there are no unanticipated changes to market competition; that the Company's reserve estimates are within reasonable bounds of accuracy (including with respect to size, grade and recoverability) and that the geological, operational and price assumptions on which these are based are reasonable; that environmental and other proceedings or disputes are satisfactorily resolved; and that the Company maintains its ongoing relations with its employees and with its business partners and joint venturers.

Readers are cautioned that the foregoing list of important factors and assumptions is not exhaustive. Forward-looking statements are not guarantees of future performance. Events or circumstances could cause the Company's actual results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. Readers should also carefully consider the matters discussed under "Risk Factors" in the Company's Annual Information Form. The Company undertakes no obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information or future events or otherwise, except as may be required under applicable laws.

ACCOUNTING CHANGES

On January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants' new accounting requirements for inventories and financial instruments disclosure and presentation. Adoption of those requirements did not have a significant impact. For details of the specific accounting changes and related impacts, refer to note 2 of the Company's unaudited consolidated financial statements for the period ended June 30, 2008.

Consolidated Balance Sheets

(Expressed in thousands of Canadian dollars)
(Unaudited)

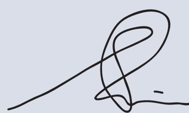
	June 30, 2008	December 31, 2007
Assets		
Current		
Cash and cash equivalents	44,088	62,934
Restricted cash *(note 4)*	579	629
Short-term investments *(note 5)*	4,480	6,532
Accounts receivable – concentrate	2,730	3,585
Other receivables	16,503	17,025
Concentrate inventory *(note 6)*	75,782	64,775
Materials and supplies inventory *(note 2(b))*	31,938	29,096
Prepaid expenses and other current assets	10,077	7,541
Future income tax assets *(note 14)*	8,326	1,491
Total current assets	194,503	193,608
Future income tax asset, long-term *(note 14)*	10,929	19,915
Restricted reclamation investments *(note 7)*	33,500	33,500
Mineral properties and fixed assets *(note 2(b))*	307,629	267,462
Long-term investments *(note 8)*	11,085	32,922
Restricted promissory notes	62,285	62,285
	619,931	609,692
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities *(note 13)*	65,559	62,020
Provisional payments for concentrate inventory shipped and not priced	42,425	32,248
Short-term debt including current portion of long-term debt *(note 9)*	1,532	190
Income and mining taxes payable	5,116	10,078
Current portion of reclamation, closure cost accruals and other environmental obligations *(note 11)*	5,868	6,486
Total current liabilities	120,500	111,022
Deferred income	5,361	5,666
Long-term lease obligations	230	267
Royalty obligations *(note 15(a))*	62,479	82,479
Long-term debt *(note 10)*	4,407	1,851
Reclamation, closure cost accruals and other environmental obligations *(note 11)*	32,654	33,262
Employee future benefits *(note 12)*	1,817	2,817
Future income tax liabilities *(note 14)*	5,295	7,942
Total liabilities	232,743	245,306
Shareholders' equity *(note 15)*	387,188	364,386
	619,931	609,692

Contingencies and commitments *(note 18)*.

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

Approved by the Board

Garth A.C. MacRae
Director



George E. Pirie
Director

Consolidated Statements of Operations and Retained Earnings

(Expressed in thousands of Canadian dollars except share and per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the periods ended June 30	**2008**	2007	**2008**	2007
Gross sales revenue	**115,149**	103,401	**197,005**	181,348
Treatment and marketing costs	**41,167**	25,311	**62,183**	45,231
Net revenue	**73,982**	78,090	**134,822**	136,117
Direct operating costs *(note 13)*	**50,597**	30,187	**98,563**	53,780
Depreciation and depletion	**9,817**	4,042	**17,047**	8,144
Reclamation and closure costs	**831**	769	**633**	1,722
	61,245	34,998	**116,243**	63,646
Contribution from mining activities	**12,737**	43,092	**18,579**	72,471
General and administrative	**4,132**	3,431	**7,727**	7,394
Interest and financing	**962**	977	**1,947**	2,133
Investment and other income	**(6,402)**	(4,952)	**(5,039)**	(6,642)
Foreign exchange and other	**(807)**	6,338	**(846)**	6,629
Exploration	**4,425**	2,920	**8,907**	5,591
Other non-producing property costs	**295**	411	**807**	906
	2,605	9,125	**13,503**	16,011
Earnings before income and mining tax provision	**10,132**	33,967	**5,076**	56,460
Income and mining tax provision (recovery) *(note 14)*	**2,050**	(4,712)	**3,858**	2,491
Net earnings	**8,082**	38,679	**1,218**	53,969
Retained earnings, beginning of period	**162,044**	160,791	**168,908**	139,795
Changes in accounting policy	**–**	–	**–**	5,706
Retained earnings, end of period	**170,126**	199,470	**170,126**	199,470
Basic earnings per Common Share *(note 21)*	**$0.02**	$0.09	**$0.00**	$0.13
Diluted earnings per Common Share *(note 21)*	**$0.02**	$0.09	**$0.00**	$0.12
Basic weighted-average number of Common Shares outstanding *(000's)* *(note 21)*	**446,382**	417,982	**436,080**	407,211

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

BREAKWATER RESOURCES LTD.

Consolidated Statement of Accumulated Other Comprehensive Loss

(Expressed in thousands of Canadian dollars)
(Unaudited)

	June 30, 2008	December 31, 2007
Accumulated other comprehensive loss, beginning of period	(3,817)	(7,689)
Remeasurement of available-for-sale securities at January 1, 2007	–	11,980
Other comprehensive loss	(4,383)	(8,108)
Accumulated other comprehensive loss, end of period *(note 15)*	(8,200)	(3,817)

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

BREAKWATER RESOURCES LTD.

Consolidated Statements of Other Comprehensive (Loss) Income

(Expressed in thousands of Canadian dollars)
(Unaudited)

	Three Months Ended		*Six Months Ended*	
For the periods ended June 30	2008	2007	2008	2007
Net earnings	8,082	38,679	1,218	53,969
Other comprehensive income (loss), net of income taxes:				
Unrealized (losses) gains on translating financial statements of self sustaining foreign operations	(102)	(4,321)	2,193	(4,937)
Unrealized (loss) gain on short-term available-for-sale securities, net of income tax provision for the 3 months of $0.5 (2007 - $4) and 6 months of $1(2007 - $41) *(note 5)*	2	(43)	(5)	(210)
Unrealized (loss) gain on long-term available-for-sale securities, net of income tax provision for the 3 months of $59 (2007 - $27) and 6 months of $27 (2007 - $87) *(note 8)*	(313)	148	172	444
Reclassification of gains on sale of available-for-sale securities to income *(notes 5 and 8)*	(6,743)	–	(6,743)	–
Other comprehensive loss, net of income taxes	(7,156)	(4,216)	(4,383)	(4,703)
Comprehensive income (loss)	926	34,463	(3,165)	49,266

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

Consolidated Statements of Cash Flow

(Expressed in thousands of Canadian dollars)
(Unaudited)

	Three Months Ended		Six Months Ended	
For the periods ended June 30	**2008**	2007	**2008**	2007
Operating Activities				
Net earnings	**8,082**	38,679	**1,218**	53,969
Items not affecting cash:				
Depreciation and depletion	**9,817**	4,042	**17,047**	8,144
Gain on sale of investments	**(6,976)**	–	**(6,976)**	(306)
Unrealized loss (gain) on investments	**3,342**	(2,628)	**5,849**	(5,235)
Other non-cash items	**1,177**	(303)	**2,372**	(203)
Stock-based compensation *(note 15(d))*	**346**	552	**711**	1,081
Unrealized deferred income	**(152)**	(153)	**(305)**	(306)
Future income taxes	**(1,856)**	(14,507)	**(2,692)**	(6,789)
Reclamation, closure cost accruals and other environmental obligations	**831**	769	**633**	1,722
Employee future benefits *(note 12)*	**355**	371	**709**	766
Payment of reclamation, closure cost accruals and other environmental obligations	**(1,019)**	(1,142)	**(1,547)**	(2,377)
Payment of employee future benefits	**(821)**	(772)	**(1,709)**	(1,512)
Changes in non-cash working capital items *(note 20)*	**17,919**	17,407	**(6,377)**	20,601
Net cash provided by operating activities	**31,045**	42,315	**8,933**	69,555
Investing Activities				
Decrease in restricted cash	**50**	(21)	**50**	167
Short-term investments	**3,448**	–	**3,448**	1,033
Long-term investments	**13,350**	–	**13,350**	–
Issue of common shares to purchase Myra Falls Limited Partnership *(note15(a))*	**(34)**	–	**(34)**	–
Acquisition of Metco Resources Inc., net of cash acquired *(note 3)*	**23**	–	**23**	–
Mineral properties and fixed assets	**(22,474)**	(33,358)	**(48,647)**	(57,036)
Proceeds from sale of mineral properties and fixed assets	**1**	272	**28**	290
Net cash used in investing activities	**(5,636)**	(33,107)	**(31,782)**	(55,546)
Financing Activities				
Issue of common shares for cash *(note 15)*	**104**	1,020	**187**	7,777
Decrease in long-term lease obligations	**–**	(67)	**(37)**	(143)
Increase (decrease) in short-term debt *(notes 9 and 10)*	**505**	(387)	**831**	(125)
Increase in long-term debt *(note 10)*	**3,022**	–	**3,022**	–
Net cash provided by financing activities	**3,631**	566	**4,003**	7,509
Net increase (decrease) in cash during the period	**29,040**	9,774	**(18,846)**	21,518
Cash and cash equivalents, beginning of period	**15,048**	93,156	**62,934**	81,412
Cash and cash equivalents, end of period	**44,088**	102,930	**44,088**	102,930
Supplemental Information				
Cash interest paid	**26**	28	**61**	235
Cash income and mining taxes paid	**10**	12,292	**10**	12,292
Cash interest received	**57**	218	**371**	218

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

Notes to the Consolidated Financial Statements

For the periods ended June 30, 2008 and 2007
(Unaudited)

1. Basis of Presentation

These unaudited interim consolidated financial statements of Breakwater Resources Ltd. (the "Company") for the three and six months ended June 30, 2008 and 2007 have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and follow the same accounting principles and methods of application as those disclosed in note 1 to the Company's audited consolidated financial statements for the year ended December 31, 2007, except for the changes in accounting policies described in note 2 below. These unaudited financial statements include all adjustments that are, in the opinion of management, necessary for a fair presentation. These unaudited financial statements do not include all disclosures required by Canadian GAAP for annual financial statements and, accordingly, should be read in conjunction with the Company's audited consolidated financial statements included in the 2007 Financial Report.

New Pronouncements Not Adopted

The Canadian Institute of Chartered Accountants ("CICA") issued accounting standard Section 3064 – Goodwill and Intangible Assets which replaces Section 3062 – Goodwill and Other Intangible Assets, Section 3450 – Research and Development and EIC27 – Revenues and Expenditures During the Pre-operating Period. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. The impact of this new standard is being assessed and cannot be determined at this time.

In February 2008, the CICA announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards ("IFRS") for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The standard also requires that comparative figures for 2010 be based on IFRS. The Company is currently in the planning stages and cannot at this time determine the impact of the transition to IFRS.

2007 Figures

Certain of the 2007 figures have been reclassified to conform to the 2008 presentation.

2. Changes in Accounting Policies

a) On January 1, 2008, the Company adopted the following CICA accounting standards which were effective for fiscal years beginning on or after October 1, 2007 and January 1, 2008 (i) Accounting Standards Section 3031 "Inventories"; (ii) Accounting Standards Section 3862 "Financial Instruments – Disclosures"; (iii) Accounting Standards Section 3863 "Financial Instruments – Presentation". Adoption of these standards is on a prospective basis without retroactive restatement of prior periods.

b) Accounting Standards Section 3031 "Inventories" provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories and was effective for fiscal years beginning on or after January 1, 2008. The effect of adopting Section 3031 is a reclassification of items classified as capital spares from materials and supplies inventory to fixed assets of $762,000 and the expensing of depreciation of $14,000.

c) Accounting Standards Section 3862 "Financial Instruments – Disclosures" require disclosures in the financial statements that will enable users to evaluate: the significance of financial instruments for the Company's financial position and performance; and the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the company manages those risks. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. *(See note 16)*

d) Accounting Standards Section 3863 "Financial Instruments – Presentation" carries forward, unchanged, the presentation requirements of Section 3861 – "Financial Instruments – Disclosure and Presentation". Adopting this standard did not have an impact on the financial statements. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

3. Acquisition of Metco Resources Inc.

On April 15, 2008, the Company acquired through 9191-3573 Quebec Inc. ("Quebec Inc."), a wholly-owned subsidiary of the Company, 100% of the shareholdings of Metco Resources Inc. ("Metco") for a purchase price of $7,648,000. The purchase price comprises 7,000,000 common shares of the Company ("Common Shares") at $1.04 per share for a total of $7,264,000, net of share issue expense of $16,000 and expenditures of $384,000. The value of the Common Shares issued was determined based on the weighted-average market price of the Company's Common Shares over the two-day period before and after April 15, 2008, which was the date the terms of the acquisition were agreed to. Quebec Inc. was subsequent merged with Metco to form 9195-7209 Quebec Inc.

The acquisition has been accounted for using the purchase method of accounting and the results of 9195-7209 Quebec Inc. have been consolidated into the Company's financial statements from April 15, 2008. The Company's interest in the net assets acquired was allocated as follows:

($000's)	
Cash	407
Non-cash current assets	756
Mineral properties and fixed assets	6,596
Current liabilities	(111)
Total	7,648
Total consideration comprised:	
Common shares, net of share issue expenses	7,264
Expenditures	384
Total	7,648

4. Restricted Cash

The restricted cash balance at June 30, 2008 of $579,000 (December 31, 2007 - $629,000), include $329,000 (December 31, 2007 - $379,000) placed on deposit to cover certain reclamation costs and $250,000 (December 31, 2007 - $250,000) to guarantee an operating lease.

5. Short-term Investments

($000's)	**June 30, 2008**	December 31, 2007
Marketable securities:		
Available-for-sale *(note 8)*	**3,664**	547
Held-for-trading	**816**	5,985
	4,480	6,532

Marketable securities are carried at fair value with the net unrealized gain on available-for-sale securities for the three months ended June 30, 2008 of $2,000 (2007 - unrealized loss of $43,000) and for the six months ended June 30, 2008 the net unrealized loss of $5,000 (2007 - $210,000) recorded in OCI until realized and the unrealized losses of $997,000 (2007 - $13,000) and $1,239,000 (2007 - unrealized gain of $139,000) held-for-trading securities for the same periods recorded in earnings. For the three and six months ended June 30, 2008, the realized gain on sale of short-term investments of $691,000 (2007 - $Nil) is included in investment and other income on the consolidated statements of operations and retained earnings. The realized gain includes $221,000 that was previously recorded in OCI as unrealized gains.

6. Concentrate Inventory

Concentrate inventory as at June 30, 2008 includes an amount of $35,005,000 (December 31, 2007 - $39,383,000) for shipments where title and risk of ownership have been transferred to the customer but the final settlement price has not been determined. These shipments will be recognized as revenue in accordance with the Company's revenue recognition policy set out in note 1 of the audited consolidated financial statements for the year ended December 31, 2007.

7. Restricted Reclamation Investments

Restricted reclamation investments at June 30, 2008 and December 31, 2007, consisting of cash collateral on deposit of $13,500,000 and investments of $20,000,000, are related to future reclamation activities and are held by third parties to fund future reclamation costs at Myra Falls. The investments of $20,000,000 were funded through a qualifying environmental trust. The investments for the qualifying environmental trust are classified as available-for-sale securities and are carried at fair value which at June 30, 2008 and December 31, 2007 approximates the carrying value of $20,000,000 at acquisition.

8. Long-term Investments

Long-term investments are classified as available-for-sale securities and are carried at fair value. The Company recorded, for the three and six months ended June 30, 2008, an unrealized loss on the long-term investments of $3,007,000 (2007 - unrealized gain of $2,382,000) and $4,604,000 (2007 - unrealized gain of $1,682,000) respectively, which included an unrealized loss of $3,108,000 (2007 - unrealized gain of $2,213,000) and $4,804,000 (2007 - unrealized gain of $1,151,000) respectively for the valuation of the conversion rights which are considered embedded derivatives and recorded through earnings and an unrealized loss of $313,000 (2007 – unrealized gain of $148,000) and unrealized gain of $172,000 (2007 - $444,000) respectively for the change in fair value of the debentures which is recorded in OCI, net of income tax of $59,000 (2007 - $27,000) and $27,000 (2007 - $87,000) respectively.

($000's)	**June 30, 2008**	December 31, 2007
Blue Note Metals Inc. unsecured convertible debenture	**11,085**	15,689
Taseko Mines Limited unsecured convertible debenture	**–**	17,233
	11,085	32,922

The unsecured subordinated convertible debenture from Blue Note Metals Inc. ("Blue Note") was issued on August 1, 2006 in the amount of $15,000,000 and matures on August 1, 2011. The note does not bear interest and is unsecured. The debenture is convertible into common shares of Blue Note at the option of the Company, any time after the Caribou and Restigouche mines have been in commercial production for at least a twelve-month period (the "Redemption Date") and prior to the maturity date, at a price of $0.36 per share. Blue Note has the option to redeem the debenture any time after the Redemption Date and up to and including the maturity date by a cash payment or on maturity by issuing common shares at a price of $0.36 per share. Management determined the fair value of the debenture on acquisition to be $9,089,000.

On April 2, 2008, the Company converted the $17,000,000 unsecured convertible debenture from Taseko Mines Limited ("Taseko") for 3,307,393 shares at a conversion price of $5.14. Taseko issued 2,612,971 shares to the Company and withheld 694,422 shares with a value of $3,569,000 as a set off, as set out in a statement of claim as described in note 20 (b) of the audited consolidated financial statements for December 31, 2007. On April 28, 2008, the Company filed an action with the Supreme Court of British Columbia seeking an order that Taseko pay to the Company $3,569,000 being the cash equivalent of the 694,422 shares withheld at a conversion price of $5.14 per share. In May 2008, the Company sold the 2,612,971 shares for $13,350,000, net of commission and realized a gain on sale of $8,914,000 which comprises $7,667,000 which is recognized in the current year and $1,247,000 which was recorded in income in prior periods as unrealized gains. The realized gain for the current year includes an amount of $6,522,000 of unrealized gains that was included in OCI. The 694,422 shares are included in short term investment as available-for-sale and are carried at fair value.

9. Short-term Debt

($000's)	**June 30, 2008**	December 31, 2007
Reimbursable government assistance, unsecured, non-interest bearing current portion *(note 10)*	**500**	190
US$ Bank Loan, current portion *(note 10)*	**1,032**	–
	1,532	190

10. Long-term Debt

($000's)	June 30, 2008	December 31, 2007
Reimbursable government assistance, unsecured, non-interest bearing	**1,851**	2,041
US$ Bank Loan	**4,088**	–
	5,939	2,041
Less current portion	**1,532**	190
	4,407	1,851

The reimbursable government assistance is for Langlois and consists of an amount of $500,000 (December 2007 - $500,000) relating to Zone 97 and $1,351,000 (December 2007 - $1,541,000) for the installation of a hydro line. The amount of $500,000 will be repaid with an instalment of $200,000 on January 1, 2009 and two instalments of $150,000 in the following two years and the amount of $1,351,000 will be repaid by three annual instalments of $300,000 with a final instalment on April 1, 2012 of $451,000. In March 2008, an instalment of $190,000 was paid, reducing the loan for the installation of the hydro line from $1,541,000 to $1,351,000. The carrying value of the reimbursable government assistance approximates its fair value.

In June 2008, Sociedad Contractual Minera El Toqui ("Toqui") a wholly-owned subsidiary of the Company obtained a bank loan ("US$ Bank Loan") for US$4,000,000, for a four year term, repayable in semi-annual instalments of US$500,000 plus interest and bears interest of 4.8% for the first year and thereafter at the LIBOR rate for 180 days plus 1.2%. The instalments plus interest are due on June 6 and December 6 of each year with the first instalment due on December 6, 2008. The carrying value of the US$ Bank Loan approximates its fair value.

11. Reclamation, Closure Cost Accruals and Other Environmental Obligations

($000's)	June 30, 2008	December 31, 2007
Asset retirement obligations	**31,864**	32,874
Closure cost accruals	**1,554**	1,505
Other environmental obligations	**5,104**	5,369
	38,522	39,748
Less current portion	**5,868**	6,486
	32,654	33,262

Other environmental obligations represent expenditures required to complete modifications to the tailings facility at Myra Falls. The Company expects to complete the required work by 2009. The estimated obligation was recorded and is being reduced by actual expenditures incurred. As at June 30, 2008, the expenditures since acquisition have been $12,993,000 (December 31, 2007 - $12,728,000). The current portion of $1,600,000 (December 31, 2007 - $1,600,000) is included in "Current portion of reclamation, closure cost accruals and other environmental obligations" on the consolidated balance sheets.

Asset Retirement Obligations
($000's)

As at December 31, 2007	**32,874**
Change in timing of cash flow	(466)
Accretion (included in reclamation and closure costs)	(499)
Expenditures	(73)
Impact of foreign exchange	131
As at March 31, 2008	**31,967**
Accretion (included in reclamation and closure costs)	581
Expenditures	(659)
Impact of foreign exchange	(25)
As at June 30, 2008	**31,864**
Less: current portion included in Current portion of reclamation, closure cost accruals and other environmental obligations	5,520
	26,344

The estimated amount of undiscounted cash flow required to satisfy the asset retirement obligations as at June 30, 2008, was $98,429,000 (December 31, 2007 - $98,102,000). The expected timing of payments ranges from 2008 to 2119, and the credit-adjusted risk-free rates at which the estimated cash flow has been discounted to arrive at the obligation, ranges from 7.17% to 7.89% (2007 - 7.17% to 7.89%). The estimated amount of undiscounted cash flow for June 30, 2008, includes an amount of $66,329,000 (December 31, 2007 - $66,329,000) which is for water treatment at Myra Falls in perpetuity.

12. Employee Future Benefits

The defined benefit pension plan cost for the three and six months ended June 30, 2008 were $355,000 (2007 - $371,000) and $709,000 (2007 - $766,000), respectively.

13. Direct Operating Costs

On March 27, 2008, the Company announced that further to the ongoing effort to reduce costs and increase profitability at Myra Falls there will be a non-permanent layoff of the workforce of both staff and hourly individuals. At March 31, 2008, $2,500,000 was accrued for severance and is included in direct operating costs on the consolidated statements of operations and retained earnings. At June 30, 2008, the balance of the accrual was $1,230,000, net of payments of $1,270,000.

14. Income and Mining Taxes

The significant components of the Company's future tax assets (liabilities) were as follows:

($000's)	**June 30, 2008**	December 31, 2007
Future tax assets		
Loss carry forwards	**23,931**	33,187
Mineral properties and fixed assets	**239,551**	232,999
Reclamation and closure cost accruals	**8,888**	10,673
Deferred income	**1,488**	1,915
Future tax assets before valuation allowance	**273,858**	278,774
Valuation allowance	**254,603**	257,368
Future tax assets	**19,255**	21,406
Future tax liabilities		
Mineral properties – mining tax	**(5,295)**	(7,942)
Net future tax assets	**13,960**	13,464

	Three Months Ended June 30		*Six Months Ended June 30*	
($000's)	**2008**	2007	**2008**	2007
Income and mining tax provision				
Current income and mining tax provision	**2,371**	9,811	**5,101**	13,294
Future income and mining tax provision (recovery)	**(321)**	(14,523)	**(1,243)**	(10,803)
	2,050	(4,712)	**3,858**	2,491

15. Shareholders' Equity

Shareholders' equity consists of the following:

($000's)	**June 30, 2008**	December 31, 2007
Capital stock	**212,180**	188,726
Warrants *(c)*	**8,538**	8,540
Contributed surplus *(a)* and *(d)*	**4,544**	2,029
Retained earnings	**170,126**	168,908
Accumulated other comprehensive income	**(8,200)**	(3,817)
	387,188	364,386

The Company is authorized to issue 200,000,000 preferred shares and an unlimited number of Common Shares. No preferred shares were issued or outstanding on June 30, 2008 and December 31, 2007.

Common shares issued: *(000's)*	**Number of Shares**	**Amount $**
As at December 31, 2007	425,700	188,726
Renunciation of flow-through share value *(b)*	–	(2,160)
Additional private placement costs *(b)*	–	(24)
Employee share option plan – proceeds of options exercised *(d)*	47	26
Value ascribed to options exercised under stock-based compensation *(d)*	–	15
Employee share purchase plan	37	81
As at March 31, 2008	425,784	186,664
Issue of Common Shares for the acquisition of Metco *(note 3)*	7,000	7,264
Issue of Common Shares for the acquisition of Myra Falls Mine Ltd. Partnership *(a)*	13,519	18,146
Additional private placement costs *(b)*	–	(3)
Exercise of warrants *(c)*	6	6
Reclassification of fair value of warrants exercised from "Warrants" *(c)*	–	2
Employee share purchase plan	75	101
As at June 30, 2008	**446,384**	**212,180**

a) On March 25, 2008, the Company exercised its right to purchase the interests of the limited and general partners of the Myra Falls Mine Limited Partnership ("MFML Partnership") for approximately $18,180,000 (90.9% of the $20,000,000 contribution to the Qualifying Environmental Trust ("QET")). On April 10, 2008, the Company elected to purchase the interest by issuing 13,518,739 Common Shares at $1.3448 which, pursuant to the agreement, is the 20-day weighted-average trading price of the Common Shares on the Toronto Stock Exchange the day before the exercise of the right. The Common Shares issued as part of the exercise of its rights were not freely tradeable until April 21, 2008.

   Pursuant to the joint venture entered into with the limited partners of the MFML Partnership in December 2007, the MFML Partnership was entitled to a 3% net smelter royalty from the Myra Falls mine.

   The purchase of the MFML Partnership terminated the royalty obligation of $20,000,000. The gain on the purchase of $1,820,000 was allocated to contributed surplus. The amount allocated to share capital of $18,146,000 is net of issue expenses of $34,000.

   The MFML Partnership deposited $20,000,000 with a trustee into a QET as security for a portion of the reclamation obligations of NVI Mining Ltd., a wholly-owned subsidiary of the Company, which owns the Myra Falls mine.

b) In December 2007, the Company issued 6,122,449 flow-through Common Shares by way of private placement at a price of $1.96 per Common Share exclusive of estimated share issuance costs of $12,000 to a wholly-owned subsidiary of Dundee Corporation ("Dundee"). The flow-through Common Shares have a four-month hold period. Dundee is a significant shareholder of the Company. The proceeds of the flow-through shares will be used to finance exploration activities in Québec.

   In March 2008, the Company renounced $12,000,000 in Canadian exploration expenses to investors of flow-through Common Shares in 2007. The tax value of the renunciation has been recorded as a liability and charged against share capital. Since the Company has a valuation allowance, which reduces the future income tax assets, the valuation allowance has been reduced and an income tax recovery has been recognized in the consolidated statements of operation and retained earnings.

c) On January 28, 2004, the Company completed the sale of 57,142,858 units to a syndicate of underwriters at a purchase price of $0.70 per unit, for net proceeds of $37,027,000, net of costs of issue of approximately $2,973,000. Each unit consisted of one Common Share and one-half of one Common Share purchase warrant. Each whole warrant entitles the holder to acquire one Common Share at a price of $1.00 at any time until January 28, 2009.

   On July 23, 2004, the Company acquired Myra Falls for consideration which included 5,000,000 warrants exercisable at $1.00 per Common Share with an expiry date of January 28, 2009.

As at June 30, 2008, the fair value ascribed to the above warrants at date of issue, net of warrants exercised was $8,538,000 (December 31, 2007 - $8,540,000) which is included in shareholders' equity on the consolidated balance sheets. At June 30, 2008, the fair value of $2,000 (December 31, 2007 - $21,000) relating to warrants exercised was transferred from "Warrants" to share capital.

The above warrants are listed on the TSX and as at June 30, 2008 entitled warrants holders to acquire 33,481,849 (December 31, 2007 - 33,488,329) Common Shares.

d) Share option transactions were as follows:

	Options *(000's)*	Weighted-average exercise price
As at December 31, 2007	8,180	$1.31
Granted	40	1.28
Exercised	(47)	0.55
Forfeited	(112)	2.31
Expired	(40)	2.20
As at March 31, 2008	8,021	$1.29
Granted	315	0.80
Forfeited	(41)	2.27
Expired	(332)	2.11
As at June 30, 2008	**7,963**	**$1.23**

As at June 30, 2008:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares outstanding *(000's)*	Weighted-average remaining contractual life	Weighted-average exercise price	Shares exercisable *(000's)*	Weighted-average exercise price
$0.19 - $0.50	2,011	2 years 324 days	$0.32	2,011	$0.32
$0.51 - $1.50	3,265	2 years 96 days	$0.93	3,028	$0.94
$1.51 - $3.00	2,527	3 years 318 days	$2.19	1,417	$2.18
$3.01 - $4.30	160	1 year 159 days	$3.67	160	$3.67
	7,963			**6,616**	

The Company's Share Option Plan is described in note 14(f) of the Company's audited consolidated financial statements for the year ended December 31, 2007. Compensation expense for the stock-based compensation plan for employees has been determined based upon the fair value of awards granted on or after January 1, 2002.

Stock-based compensation at June 30, 2008 of $711,000 (2007 - $1,081,000) less the initial fair value of options exercised of $15,000 (2007 - $704,000), for a net amount of $695,000 (2007 - $377,000) was credited to "Contributed surplus" within shareholders' equity on the consolidated balance sheets. The proceeds of options exercised noted above were credited to "Capital stock" within shareholders' equity on the consolidated balance sheets.

The fair value of each option grant has been estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	**2008**	2007
Weighted-average exercise price per Common Share	**$0.80**	$2.72	**$0.85**	$2.37
Weighted-average quoted market price per Common Share at date of grant	**$0.80**	$2.72	**$0.85**	$2.37
Weighted-average grant-date fair value price per Common share	**$0.33**	$1.33	**$0.35**	$1.26
Expected life (years)	**3**	3.5	**3**	4.3
Risk free interest rate	**3.36%**	4.92%	**3.31%**	4.28%
Expected volatility	**58%**	63%	**58%**	64%
Dividend yield	**0%**	0%	**0%**	0%

16. Financial Instruments

Credit Risk

The Company is subject to credit risk through trade receivables. The Company manages this risk through evaluation and monitoring processes and carries credit insurance when necessary. Credit risk is further mitigated through the use of provisional payment arrangements and the use of letters of credit where appropriate. Credit risk also relates to derivative contracts arising from the possibility that a counterparty to an instrument in which the Company has an unrealized gain fails to perform. The Company does not consider the credit risk associated with these financial instruments to be significant.

Foreign Exchange Risk

The Company operates using principally the Canadian dollar and the US dollar, and may be negatively affected by fluctuations in foreign exchange rates. The Company manages this risk by minimizing the number of transactions that result in the settlement currency differing from the currency of the initial transaction. In addition, the Company's sales are denominated primarily in US dollars, while a significant percentage of its expenses are denominated in non-US dollars. This exposes the Company to increased volatility in earnings due to fluctuations in foreign exchange rates. The Company's hedging policy enables it to use forward foreign exchange contracts to hedge the exchange rates on identifiable foreign currency exposures. Gains and losses on these contracts when they are designated as hedges are reported as a component of the related transactions.

The Company had no foreign exchange contracts outstanding at June 30, 2008 and December 31, 2007.

Commodity Price Risk

The profitability of the Company is directly related to the market price of metals produced. The Company may reduce price risk by hedging against the price of metals for a portion of its production. The main tools used to protect against price risk are forward contracts and options. Various strategies are available using these tools including spot deferred and synthetic puts.

The Company periodically enters into forward sales and options to effectively provide a minimum price for a portion of inventories and future production. In 2008 and 2007, the Company chose not to apply hedge accounting. As a result, outstanding derivative contracts were classified as held-for-trading and are carried at their fair value. Any gains and losses are recognized in the relevant period and included in "Gross sales revenue" on the consolidated statements of operations and retained earnings. The Company had no commodity hedges outstanding at June 30, 2008 and December 31, 2007.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company's objectives and policies for managing capital are set out in note 2 to the audited consolidated financial statements as at December 31, 2007. The Company only invests in highly liquid investments with reputable counterparts and monitors its cash flow to ensure that there are adequate funds to meet its obligations. As at June 30, 2008, the Company had a nominal level of debt of $5,939,000.

Interest Rate Risk

The Company normally invests in short term interest-bearing financial instruments. A change in the interest rate would have a minimal effect on the profitability of the Company. At June 30, 2008, interest bearing liability amounted to $4,088,000 which bears interest of 4.8% for the first year to June 2009 and thereafter at the LIBOR rate for 180 days plus 1.2%.

Sensitivity

The Company's cash flow and net earnings are sensitive to the movement in a variety of prices and costs and are particularly sensitive to movements in the price of zinc, smelter treatment charges and the C$/US$ exchange rate. The following table provides the Company's estimates of the sensitivity of net income to changes in the various metal prices, smelter treatment charges and C$/US$ exchange rate movements based on realized prices and exchange rates for the six months ended June 30, 2008.

Variable	Realized price (US$)	Change	Change to net earnings for the six months ended June 30, 2008 *($'000s)*
Zinc	2,278	10% per tonne	6,767
Copper	7,526	10% per tonne	1,162
Lead	2,565	10% per tonne	1,072
Gold	915	10% /ounce	1,140
Silver	16.96	10% /ounce	1,010
Exchange rate (C$/US$)	1.0073	10%	5,195
Combined weighted-average treatment charges per dry metric tonnes sold	402	10%	3,276

17. Related Party Transactions

All related party transactions are disclosed elsewhere in these consolidated financial statements *(note 15(b)).*

18. Contingencies and Commitments

On May 15, 2008, Blue Note commenced a lawsuit against the Company and CanZinco Ltd. ("CanZinco"), a wholly-owned subsidiary of the Company relating to an action by Merlin Group Securities Ltd., as Trustee of the Fern Trust (see note 20 (c) of the Company's audited consolidated financial statements for the year ended December 31, 2007). The lawsuit seeks two declarations that Blue Note has no obligation to indemnify the Company and CanZinco in respect of costs associated with or claims arising from certain litigation in the Province of New Brunswick and in respect of any and all liabilities arising from the enforcement of a Net Profit Interest ("NPI"). Blue Note also seeks Orders that the Company and CanZinco fully indemnify Blue Note and its subsidiaries in respect of costs associated with and all claims arising from the litigation in New Brunswick, of any and all liabilities arising from the NPI and the costs of this proceeding, plus goods and services tax; and such further and other relief as the Court deems just.

On June 3, 2008, the Company and CanZinco commenced a lawsuit in a New Brunswick Court of Queen's Bench against Blue Note for, among other things, an order in the Ontario Action for the stay of the Ontario Action.

The Company believes that the Ontario Action is without merit and anticipates that this claim is not likely to have a material effect on the Company's financial position.

The above note should be read in conjunction with the contingencies and commitments are described in note 20 of the Company's audited consolidated financial statements for the year ended December 31, 2007.

19. Segment Information

For the Six Months Ended June, 2008 *($000's) (Unaudited)*

Operating Segment	Mochito	Toqui	Myra Falls	Langlois	Total	Non-operating mines	Corporate and Other	Consolidated
Gross sales revenue	**51,177**	**59,102**	**47,136**	**39,590**	**197,005**	**–**	**–**	**197,005**
Treatment and marketing costs	**(13,499)**	**(23,239)**	**(13,143)**	**(12,302)**	**(62,183)**	**–**	**–**	**(62,183)**
Net revenue	**37,678**	**35,863**	**33,993**	**27,288**	**134,822**	**–**	**–**	**134,822**
Direct operating costs	**(16,651)**	**(17,683)**	**(37,064)**	**(27,165)**	**(98,563)**	**–**	**–**	**(98,563)**
Depreciation and depletion	**(3,778)**	**(3,974)**	**(2,794)**	**(6,414)**	**(16,960)**	**–**	**(87)**	**(17,047)**
Reclamation and closure costs	**(532)**	**994**	**(861)**	**(40)**	**(439)**	**(194)**	**–**	**(633)**
Contribution (loss) from mining activities	**16,717**	**15,200**	**(6,726)**	**(6,331)**	**18,860**	**(194)**	**(87)**	**18,579**
General and administrative	**–**	**–**	**–**	**–**	**–**	**–**	**(7,727)**	**(7,727)**
Interest and financing	**–**	**–**	**–**	**–**	**–**	**–**	**(1,947)**	**(1,947)**
Investment and other income	**–**	**–**	**–**	**–**	**–**	**–**	**5,039**	**5,039**
Foreign exchange and other	**–**	**–**	**–**	**–**	**–**	**–**	**846**	**846**
Exploration	**(967)**	**(686)**	**(978)**	**(2,703)**	**(5,334)**	**(391)**	**(3,182)**	**(8,907)**
Other non–producing property costs	**–**	**–**	**–**	**–**	**–**	**(670)**	**(137)**	**(807)**
Net earnings (loss) before income and mining tax (provision) recovery	**15,750**	**14,514**	**(7,704)**	**(9,034)**	**13,526**	**(1,255)**	**(7,195)**	**5,076**
Income and mining tax (provision) recovery	**(3,992)**	**(2,407)**	**(2,867)**	**4,716**	**(4,550)**	**–**	**692**	**(3,858)**
Net earnings (loss)	**11,758**	**12,107**	**(10,571)**	**(4,318)**	**8,976**	**(1,255)**	**(6,503)**	**1,218**
Capital expenditures	**13,956**	**14,074**	**2,967**	**16,825**	**47,822**	**–**	**825**	**48,647**
Mineral properties and fixed assets	**46,111**	**53,851**	**59,964**	**132,922**	**292,848**	**5,206**	**9,575**	**307,629**
Identifiable assets	**73,650**	**75,377**	**214,376**	**162,997**	**526,400**	**6,989**	**86,542**	**619,931**

Information about major customers – Summary of net revenue from major customers for the six month period ended June 30, 2008.

Revenue Source

($000's)	Mochito	Toqui	Myra Falls	Langlois	Total
Customer 1	**22,243**	**4,288**	**–**	**–**	**26,531**
Customer 2	**6,054**	**10,843**	**9,327**	**–**	**26,224**
Customer 3	**9,668**	**–**	**–**	**7,452**	**17,120**
Customer 4	**–**	**6,875**	**7,768**	**–**	**14,643**
Customer 5	**–**	**–**	**–**	**14,316**	**14,316**

For the Six Months Ended June 30, 2007 *($000's) (Unaudited)*

Operating Segment	Mochito	Toqui	Myra Falls	Langlois	Total	Non-operating mines	Corporate and Other	Consolidated
Gross sales revenue	61,532	56,420	63,396	–	181,348	–	–	181,348
Treatment and marketing costs	(7,764)	(21,457)	(16,010)	–	(45,231)	–	–	(45,231)
Net revenue	53,768	34,963	47,386	–	136,117	–	–	136,117
Direct operating costs	(12,412)	(11,176)	(30,192)	–	(53,780)	–	–	(53,780)
Depreciation and depletion	(1,918)	(2,590)	(3,535)	–	(8,043)	–	(101)	(8,144)
Reclamation and closure costs	(421)	(146)	(804)	(54)	(1,425)	(297)	–	(1,722)
Contribution (loss) from mining activities	39,017	21,051	12,855	(54)	72,869	(297)	(101)	72,471
General and administrative	–	–	–	–	–	–	(7,394)	(7,394)
Interest and financing	–	–	–	–	–	–	(2,133)	(2,133)
Investment and other income	–	–	–	–	–	–	6,642	6,642
Foreign exchange and other	–	–	–	–	–	–	(6,629)	(6,629)
Exploration	(1,203)	(2,100)	(1,793)	–	(5,096)	(495)	–	(5,591)
Other non–producing property costs	–	–	–	–	–	(901)	(5)	(906)
Net earnings (loss) before income and mining tax (provision) recovery	37,814	18,951	11,062	(54)	67,773	(1,693)	(9,620)	56,460
Income and mining tax (provision) recovery	(10,708)	(3,159)	(3,009)	14,342	(2,534)	(67)	110	(2,491)
Net earnings (loss)	27,106	15,792	8,053	14,288	65,239	(1,760)	(9,510)	53,969
Capital expenditures	9,848	10,057	11,789	22,763	54,457	–	2,579	57,036
Mineral properties and fixed assets	26,235	29,061	72,039	112,158	239,493	5,425	4,168	249,086
Identifiable assets	54,543	57,112	229,512	119,435	460,602	9,432	145,838	615,872

Information about major customers – Summary of net revenue from major customers for the six month period ended June 30, 2007.

Revenue Source

($000's)	Mochito	Toqui	Myra Falls	Langlois	Total
Customer 1	**23,142**	**19,421**	**–**	**–**	**42,563**
Customer 2	**–**	**10,219**	**21,913**	**–**	**32,132**
Customer 3	**13,940**	**–**	**12,466**	**–**	**26,406**

For the Three Months Ended June, 2008 *($000's) (Unaudited)*

Operating Segment	Mochito	Toqui	Myra Falls	Langlois	Total	Non-operating mines	Corporate and Other	Consolidated
Gross sales revenue	**34,311**	**32,193**	**28,622**	**20,023**	**115,149**	**–**	**–**	**115,149**
Treatment and marketing costs	**(11,748)**	**(13,742)**	**(8,188)**	**(7,489)**	**(41,167)**	**–**	**–**	**(41,167)**
Net revenue	**22,563**	**18,451**	**20,434**	**12,534**	**73,982**	**–**	**–**	**73,982**
Direct operating costs	**(10,585)**	**(9,521)**	**(18,674)**	**(11,817)**	**(50,597)**	**–**	**–**	**(50,597)**
Depreciation and depletion	**(2,440)**	**(2,326)**	**(1,674)**	**(3,336)**	**(9,776)**	**–**	**(41)**	**(9,817)**
Reclamation and closure costs	**(244)**	**(44)**	**(427)**	**(20)**	**(735)**	**(96)**	**–**	**(831)**
Contribution (loss) from mining activities	**9,294**	**6,560**	**(341)**	**(2,639)**	**12,874**	**(96)**	**(41)**	**12,737**
General and administrative	**–**	**–**	**–**	**–**	**–**	**–**	**(4,132)**	**(4,132)**
Interest and financing	**–**	**–**	**–**	**–**	**–**	**–**	**(962)**	**(962)**
Investment and other income	**–**	**–**	**–**	**–**	**–**	**–**	**6,402**	**6,402**
Foreign exchange and other	**–**	**–**	**–**	**–**	**–**	**–**	**807**	**807**
Exploration	**(531)**	**(225)**	**(614)**	**(568)**	**(1,938)**	**(345)**	**(2,142)**	**(4,425)**
Other non–producing property costs	**–**	**–**	**–**	**–**	**–**	**(282)**	**(13)**	**(295)**
Net earnings (loss) before income and mining tax (provision) recovery	**8,763**	**6,335**	**(955)**	**(3,207)**	**10,936**	**(723)**	**(81)**	**10,132**
Income and mining tax (provision) recovery	**(2,498)**	**405**	**(1,921)**	**1,709**	**(2,305)**	**–**	**255**	**(2,050)**
Net earnings (loss)	**6,265**	**6,740**	**(2,876)**	**(1,498)**	**8,631**	**(723)**	**174**	**8,082**
Capital expenditures (recovery)	**9,492**	**6,128**	**887**	**6,240**	**22,747**	**–**	**(273)**	**22,474**

Information about major customers – Summary of net revenue from major customers for the three months ended June 30, 2008.

Revenue Source

($000's)	Mochito	Toqui	Myra Falls	Langlois	Total
Customer 1	**6,054**	**9,316**	**9,327**	**–**	**24,697**
Customer 2	**8,376**	**3,260**	**–**	**–**	**11,636**
Customer 3	**9,668**	**–**	**–**	**64**	**9,732**
Customer 4	**–**	**–**	**–**	**8,341**	**8,341**

For the Three Months Ended June 30, 2007 *($000's) (Unaudited)*

Operating Segment	Mochito	Toqui	Myra Falls	Langlois	Total	Non-operating mines	Corporate and Other	Consolidated
Gross sales revenue	38,590	19,194	45,617	–	103,401	–	–	103,401
Treatment and marketing costs	(5,745)	(7,057)	(12,509)	–	(25,311)	–	–	(25,311)
Net revenue	32,845	12,137	33,108	–	78,090	–	–	78,090
Direct operating costs	(7,584)	(2,945)	(19,658)	–	(30,187)	–	–	(30,187)
Depreciation and depletion	(1,207)	(589)	(2,194)	–	(3,990)	–	(52)	(4,042)
Reclamation and closure costs	(99)	(71)	(402)	(27)	(599)	(170)	–	(769)
Contribution (loss) from mining activities	23,955	8,532	10,854	(27)	43,314	(170)	(52)	43,092
General and administrative	–	–	–	–	–	–	(3,431)	(3,431)
Interest and financing	–	–	–	–	–	–	(977)	(977)
Investment and other income	–	–	–	–	–	–	4,952	4,952
Foreign exchange and other	–	–	–	–	–	–	(6,338)	(6,338)
Exploration	(765)	(916)	(1,058)	–	(2,739)	(181)	–	(2,920)
Other non–producing property (costs) income	–	–	–	–	–	(413)	2	(411)
Net earnings (loss) before income and mining tax (provision) recovery	23,190	7,616	9,796	(27)	40,575	(764)	(5,844)	33,967
Income and mining tax (provision) recovery	(7,292)	(1,600)	(1,331)	14,825	4,602	–	110	4,712
Net earnings (loss)	15,898	6,016	8,465	14,798	45,177	(764)	(5,734)	38,679
Capital expenditures	6,575	6,080	5,277	13,330	31,262	–	2,096	33,358

Information about major customers – Summary of net revenue from major customers for the three months ended June 30, 2007.

Revenue Source

($000's)	Mochito	Toqui	Myra Falls	Total
Customer 1	**23,142**	**9,877**	**–**	**33,019**
Customer 2	**–**	**–**	**12,466**	**12,466**
Customer 3	**–**	**–**	**10,268**	**10,268**
Customer 4	**3**	**–**	**7,958**	**7,961**
Customer 5	**–**	**–**	**11,997**	**11,997**

20. Analysis of Changes in Non-Cash Working Capital Items

($000's)	Three Months Ended June 30 2008	Three Months Ended June 30 2007	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Accounts receivable – concentrate	**7,729**	1,335	**855**	13,064
Other receivables	**5,156**	(4,959)	**2,943**	(5,257)
Concentrate inventory	**(6,304)**	(6,245)	**(9,797)**	(16,876)
Materials and supplies inventory	**(2,264)**	(3,117)	**(3,021)**	(3,851)
Prepaid expenses and other current assets	**3,713**	341	**(2,493)**	(1,697)
Accounts payable and accrued liabilities	**11,322**	1,197	**2,778**	5,632
Provisional payments for concentrate inventory shipped and not priced	**6,616**	31,095	**7,367**	30,289
Income and mining taxes payable	**(8,049)**	(2,240)	**(5,009)**	(703)
	17,919	17,407	**(6,377)**	20,601

21. Earnings per Common Share

Basic earnings per Common Share ("EPS") have been calculated using the weighted-average number of shares outstanding during the period. The calculation of diluted earnings per Common Share has been computed using the treasury stock method which assumes that options and warrants with an exercise price lower than the average quoted market price were exercised at the beginning of the period, or at time of issue. In applying the treasury stock method, options and warrants with an exercise price greater than the average quoted market price of the Common Shares are not included in the calculation of diluted earnings per Common Share as the effect is anti-dilutive. The average quoted market price of the Common Shares during the three and six months ended June 30, 2008 were $0.78 (2007 - $2.38) and $1.06 (2007 - $2.09), respectively.

	Three Months Ended June 30 2008	Three Months Ended June 30 2007	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Basic earnings per Common Share	**$0.02**	$0.09	**$0.00**	$0.13
Diluted earnings per Common Share	**$0.02**	$0.09	**$0.00**	$0.12
Basic weighted-average number of Common Shares outstanding *(000's)*	**446,382**	417,982	**436,080**	407,211
Incremental Common Shares on assumed exercise of options and warrants *(000's)*	**1,295**	24,515	**6,049**	31,288
Weighted-average number of Common Shares used for diluted earnings per Common Share *(000's)*	**447,677**	442,497	**442,129**	438,499

Corporate Information

DIRECTORS

Garth A. C. MacRae [1, 3, 4]
Chairman

Grant A. Edey [1, 5]

Joanne Ferstman [1]

Jonathan C. Goodman [4, 5]

Ned Goodman [2]

John W. Ivany

W. Murray John [3]

George E. Pirie [3, 5]

A. Murray Sinclair, Jr. [2, 4]

[1] Member of Audit Committee
[2] Member of Compensation Committee
[3] Member of Hedging Committee
[4] Member of Corporate Governance and Nominating Committee
[5] Member of Environmental, Health and Safety Committee

CORPORATE AND REGISTERED OFFICE

95 Wellington Street West
Suite 950
Toronto, ON
M5J 2N7

Tel: (416) 363-4798 Fax: (416) 363-1315

E-Mail: investorinfo@breakwater.ca

OFFICERS

George Pirie
President and Chief Executive Officer

Dave Langille
Vice President, Finance & Chief Financial Officer

Bill Heath
Executive Vice President

Fred Hermann
Senior Vice President, Sustainability

Bert Boivin
Vice President, Canada

Bob Carreau
Vice President, CSR and Sustainability

Dr. Bob Cuttriss
Vice President, Technical Services

Daniel Goffaux
Vice President, Latin America

Steven Hayes
Vice President, Commercial

Torben Jensen
Vice President, Engineering

Ann Wilkinson
Vice President, Investor Relations
and Assistant Secretary

Leroy Fong
Controller

Lesley Duncan
Corporate Secretary

Shareholder Information

TRANSFER AGENT AND REGISTRAR

Computershare Investor Services Inc.
100 University Ave.
9th Floor
Toronto, ON
M5J 2Y1

North America Toll-free
Tel: (800) 564-6253 Fax: (888) 453-0330

International
Tel: (514) 982-7555 Fax: (416) 263-9524

E-Mail: service@computershare.com

www.computershare.com

CO-TRANSFER AGENTS

Computershare Investor Services Inc.
510 Burrard Street
2nd Floor
Vancouver, BC
V6C 3B9

Computershare Trust Company N.A.
350 Indiana Street
Suite 800
Golden, Colorado
U.S.A. 80401

Tel: (303) 262-0600 Fax: (303) 262-0603

SHARES AND WARRANTS

Toronto Stock Exchange (TSX)
Symbols - BWR & BWR.WT

WEBSITE

www.breakwater.ca

BREAKWATER
RESOURCES LTD

www.breakwater.ca

Mixed Sources
Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. SW-COC-002854
© 1996 Forest Stewardship Council

Printed in Canada using vegetable based inks on paper that is 100% recyclable.