Breakwater Resources Ltd

Second Quarter Report 2007

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, 2007, and related notes thereto (the "second quarter 2007 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, 2006 and related annual management's discussion and analysis, and the Annual Information Form/Form 40-F on file with the Canadian provincial securities regulatory authorities and the U.S. Securities and Exchange Commission, as applicable. Unless otherwise indicated, this MD&A has been prepared as of July 25, 2007. The reporting currency is Canadian dollars 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 and sells zinc, copper, lead and gold concentrates to customers around the world. The Company's concentrate production is derived from mines located in Canada, Chile and Honduras.

HIGHLIGHTS

- The Company realized net earnings of $38.7 million or $0.09 per share in the second quarter of 2007 after recording a net income tax recovery of $4.7 million ($0.01 per share) compared with $28.6 million or $0.07 per share in the second quarter of 2006 after recording an income tax provision of $2.8 million ($0.01 per share)
- Gross sales revenue increased by 2% to $103.4 million in the second quarter of 2007 from $101.2 million in the second quarter of 2006 due to higher realized prices for metals sold partially offset by lower concentrate sales
- Sales of concentrate in the second quarter of 2007 decreased to 51,553 tonnes from 59,779 in the second quarter of 2006. The decrease was primarily due to 9,343 more tonnes of concentrate in inventory at the end of the second quarter of 2007 compared with the second quarter of 2006
- Concentrate inventories at June 30, 2007 were 89,471 tonnes compared with 62,090 and 80,517 tonnes at December 31, 2006 and March 31, 2007 respectively
- Production in the second quarter of 2007 was 75,596 tonnes of concentrate (60,675 tonnes excluding Langlois which commenced commercial production July 1, 2007) compared with 59,906 tonnes in the second quarter of 2006
- The contribution from mining activities was $43.1 million in the second quarter of 2007 compared with $37.6 million in the second quarter of 2006
- Net cash provided by operating activities was comparable with the second quarter 2006 at $42.3 million in the second quarter of 2007 and was primarily used for $33.4 million of capital expenditures
- At June 30, 2007, cash and cash equivalents were $102.9 million and total debt was $2.4 million
- Total cash costs per pound of payable zinc increased to US$0.45 per pound in the second quarter of 2007 from US$0.32 per pound in the second quarter of 2006. See the non-GAAP reconciliation section in this MD&A

OUTLOOK

- The Company announced that Langlois had achieved commercial production effective July 1, 2007 and expects production to continue to ramp-up over time
- In the second quarter of 2007, the Company announced that proven and probable mineral reserves and measured and indicated mineral resources at Toqui had increased by 50% and 37% respectively and that it had commenced a pre-feasibility study for a new 1.0 million tonne per annum mill, an increase from the current 540,000 tonnes per annum facility

STATEMENT OF OPERATIONS REVIEW – THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006

Gross Sales Revenue

Langlois entered commercial production on July 1, 2007 and therefore the sales of concentrate produced at Langlois prior to that date are not reflected in the income statement.

Gross sales revenue from the sale of zinc, copper, lead, and gold concentrates for the three month period ended June 30, 2007 (the "second quarter of 2007") increased by $2.2 million (2%) compared with the three month period ended June 30, 2006 (the "second quarter of 2006"). Higher metal prices accounted for this increase, which was partially offset by decreased concentrate sales — 51,553 tonnes in 2007 compared with 59,779 tonnes in 2006 — and a stronger Canadian dollar. The decreased tonnage of concentrate sold in 2007 was primarily due to concentrate shipping schedules which caused an increase of 9,343 tonnes in ending concentrate inventories at June 30, 2007 compared with June 30, 2006. Tonnes of concentrate produced, excluding Langlois which was in preproduction, increased slightly in the second quarter of 2007 compared with the prior year period.

Gross sales revenue for the six month period ended June 30, 2007 (the "first six months of 2007") were comparable with gross sales revenue in the six month period ended June 30, 2006 (the "first six months of 2006"). Higher metal prices and a hedging loss of $4.4 million in 2006 were partially offset by decreased concentrate sales — 90,887 tonnes in 2007 compared with 127,133 tonnes in 2006 — to keep gross revenues flat in the first six months of 2007 compared with the prior year period. The decreased tonnage of concentrate sold in the first six months of 2007 was primarily due to significantly higher inventory levels at the beginning of 2006 (19,381 more tonnes at December 31, 2005 than at December 31, 2006) and shipping schedules which resulted in higher end of period concentrate inventories and lower concentrate sales at Myra Falls and Mochito partially offset by higher concentrate sales at Toqui.

The Company periodically hedges against fluctuations in metal prices and foreign exchange rates with the use of forward sales or options.

Gross Sales Revenue by Metal	**Second Quarter**		First Six Months	
($ millions)	**2007**	2006	**2007**	2006
Zinc *(US$)*	**61.3**	49.0	**104.4**	111.4
Copper *(US$)*	**7.6**	21.4	**15.3**	21.4
Lead *(US$)*	**8.9**	3.3	**12.4**	6.0
Gold *(US$)*	**7.0**	6.8	**14.3**	10.5
Silver *(US$)*	**9.6**	5.3	**14.5**	7.8
Other	**0.3**	3.6	**0.6**	2.2
Total gross sales revenue *(US$)*	**94.7**	89.4	**161.5**	159.3
C$/US$ realized exchange rate	**1.0914**	1.1315	**1.1229**	1.1421
Total gross sales revenue *(C$)*	**103.4**	101.2	**181.3**	181.9

Sales by Concentrate	**Second Quarter**		First Six Months	
(tonnes)	**2007**	2006	**2007**	2006
Zinc	**39,042**	39,705	**69,098**	103,276
Copper	**4,907**	14,482	**10,558**	14,482
Lead	**6,668**	5,025	**9,468**	8,325
Gold	**936**	567	**1,763**	1,050
Total	**51,553**	59,779	**90,887**	127,133

Sales by Payable Metal	**Second Quarter**		First Six Months	
	2007	2006	**2007**	2006
Zinc *(tonnes)*	**16,522**	16,916	**29,077**	45,009
Copper *(tonnes)*	**1,024**	3,107	**2,209**	3,107
Lead *(tonnes)*	**4,325**	3,182	**6,140**	5,288
Gold *(ounces)*	**10,413**	13,833	**21,714**	23,253
Silver *(ounces)*	**718,370**	717,572	**1,091,899**	1,046,661

Realized Prices	**Second Quarter**		First Six Months	
	2007	2006	**2007**	2006
Zinc *(US$/tonne)*	**3,710**	2,895	**3,591**	2,474
Copper *(US$/tonne)*	**7,460**	6,872	**6,920**	6,872
Lead *(US$/tonne)*	**2,058**	1,045	**2,016**	1,138
Gold *(US$/ounce)*	**668**	494	**657**	451
Silver *(US$/ounce)*	**13.37**	7.47	**13.25**	7.45

Average Metal Prices & Foreign Exchange Rate	**Second Quarter**		First Six Months	
	2007	2006	**2007**	2006
Zinc *(US$/tonne)*	**3,664**	3,301	**3,560**	2,767
Copper *(US$/tonne)*	**7,639**	7,251	**6,785**	6,070
Lead *(US$/tonne)*	**2,174**	1,095	**1,979**	1,169
Gold *(US$/ounce)*	**668**	627	**659**	590
Silver *(US$/ounce)*	**13.34**	12.25	**13.33**	10.96
C$/US$ exchange rate	**1.0981**	1.1223	**1.1347**	1.1381

The Company has a conservative revenue recognition policy which, among other things, requires final pricing of concentrate inventories prior to recognition of revenue. Using commodity prices and exchange rates prevailing at June 30, 2007, the following schedule provides details regarding inventories shipped but not recognized for revenue purposes and the related provisional payments. Estimated net smelter return, earnings before taxes and weighted-average months to settlement are non-GAAP measures and are furnished to provide additional information.

	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	36,217	37,426	21,310	16,116	37,518	1.7
Copper	6,559	12,693	8,878	3,815	11,964	3.6
Gold	469	1,176	399	777	1,418	1.0
	43,245	**51,295**	**30,587**	**20,708**	**50,900**	

At June 30, 2006, the Company estimated that inventories shipped but not recognized for revenue purposes had earnings before tax of $33.0 million consisting of $57.9 million of net smelter return less $24.9 million of inventory value on 47,495 tonnes of concentrate.

Net Revenue

Net revenue, the value of concentrates sold after deducting treatment charges and freight and marketing costs, increased by 3% to $78.1 million in the second quarter of 2007 from $75.7 million in the second quarter of 2006. Treatment and marketing costs were 1% lower at $25.3 million in the second quarter of 2007 compared with $25.5 million in the second quarter of 2006 primarily due to lower tonnes of concentrate sold offset by higher metal prices triggering price escalators in treatment charges. On a per tonne of concentrate sold basis, total treatment and marketing costs increased to $491 per tonne in the second quarter of 2007 compared with $427 per tonne in the second quarter of 2006 primarily due to the reasons noted above partially offset by certain spot sales which did not have any escalators.

For the first six months of 2007, net revenue increased by 4% to $136.1 million compared with the first six months of 2006. Treatment and marketing costs decreased to $45.2 million in the first six months of 2007 compared with $50.4 million for the first six months of 2006 primarily due to lower tonnes of concentrate sold offset by higher metal prices triggering price escalators in the treatment charges partially offset by certain spot sales which did not have any escalators. On a per tonne of concentrate sold basis, total treatment and marketing costs increased to $498 per tonne in the first six months of 2007 compared with $396 per tonne in the first six months of 2006 primarily due to the reasons noted above.

Direct Operating Costs

Direct operating costs were 12% lower in the second quarter of 2007 at $30.2 million compared with $34.2 million in the second quarter of 2006 as 14% fewer tonnes of concentrate were sold. The average cost per tonne of concentrate sold increased to $586 in the second quarter of 2007 from $572 in the second quarter of 2006. Higher direct operating costs and tonnes of concentrate sold at Mochito partially offset by lower direct operating costs and tonnes of concentrate sold at Myra Falls and Toqui in the second quarter of 2007 compared with the second quarter of 2006 resulted in higher direct operating costs per tonne sold in the second quarter of 2007.

Direct Operating Costs

	Second Quarter 2007			Second Quarter 2006		
	Aggregate ($ millions)	Concentrate sold (tonnes)	Cost per tonne ($)	Aggregate ($ millions)	Concentrate sold (tonnes)	Cost per tonne ($)
Myra Falls	19.7	22,927	859	23.0	25,850	890
Mochito	7.6	18,498	411	5.3	16,287	325
Toqui	2.9	10,128	286	5.9	17,642	334
Total	30.2	51,553	586	34.2	59,779	572

For the first six months of 2007, direct operating costs were $53.8 million compared with $63.0 million for the first six months of 2006 and the average direct operating cost per tonne of concentrate sold increased to $592 in 2007 from $495 in 2006. Significantly lower concentrate sales at Myra Falls and Mochito partially offset by Toqui's aggregate direct operating costs increasing greater than Toqui's increase in tonnes of concentrate sold resulted in higher direct operating costs per tonne sold in the first six months of 2007 compared with the first six months of 2006.

Direct Operating Costs

	First Six Months 2007			First Six Months 2006		
	Aggregate ($ millions)	Concentrate sold (tonnes)	Cost per tonne ($)	Aggregate ($ millions)	Concentrate sold (tonnes)	Cost per tonne ($)
Myra Falls	30.2	30,690	984	40.9	59,206	691
Mochito	12.4	30,622	405	13.1	40,867	321
Toqui	11.2	29,575	379	9.0	27,060	329
Total	53.8	90,887	592	63.0	127,133	495

Total Cash Cost per Pound of Payable Zinc Sold

The total cash cost per pound of payable zinc sold, which includes all mine site cash costs, treatment charges, ocean freight and other marketing costs, net of by-product credits, was US$0.45 in the second quarter of 2007 compared with US$0.32 in the second quarter of 2006 (see non-GAAP reconciliation). The increase was primarily due to lower by-product credits and lower pounds of zinc sold partially offset by reduced direct operating costs.

The total cash cost per pound of payable zinc sold was US$0.47 in the first six months of 2007 compared with US$0.51 in first six months of 2006 (see non-GAAP reconciliation). The decrease was primarily due to higher by-product credits, reduced direct operating costs and reduced treatment costs partially offset by significantly lower pounds of zinc sold.

Depreciation and Depletion

Despite fewer tonnes of concentrate sold in the second quarter and the first six months of 2007 compared with the corresponding periods in 2006, depreciation and depletion increased by $1.1 million and $0.2 million respectively. The higher depreciation and depletion expense is primarily due to the change in the mix of concentrates sold as well as productivity levels at each of the operations with Myra Falls having a significant impact.

Other Expenses (Income)

Other expenses (income) in the second quarter of 2007 increased by $3.0 million compared with the corresponding 2006 period primarily due to other expenses which included an increase of $6.5 million of foreign exchange losses associated with the impact of the 6% appreciation in the Canadian dollar in the second quarter of 2007 on US$ cash balances held, partially offset by a $3.2 million increase in investment and other income due to unrealized gains on investments held for trading and the associated imbedded derivatives and greater interest income on larger cash balances.

For the first six months of 2007, other expense (income) increased by $2.1 million primarily due to the items noted above for the second quarter of 2007 and $0.8 million of reduced interest and financing expenses related to losses and interest expenses incurred on debts which were outstanding during the first six months of 2006.

Exploration Expenses

Exploration expenses of $2.9 million in the second quarter of 2007 increased by $0.1 million from the corresponding period in 2006. The increase was primarily due to expanded exploration programmes at Myra Falls, Mochito and Toqui partially offset by $1.4 million of decreased exploration expenses at Bouchard-Hébert.

Exploration expenses of $5.6 million in the first six months of 2007 increased by $1.1 million from the corresponding period in 2006. The increase was primarily due to expanded exploration programmes at Myra Falls, Toqui and Mochito partially offset by $2.2 million of decreased expenses at Bouchard-Hébert and Bougrine.

Other Non-Producing Property Costs

Other non-producing property costs include care and maintenance costs, holding costs, settlement costs and other costs associated with non-producing properties net of proceeds received from those properties related to property options and assets sold. Other non-producing property costs in the second quarter of 2007 decreased by $0.1 million compared with the corresponding 2006 period primarily due to $0.5 million of costs incurred at the Caribou mine prior to its sale in August 2006 partially offset by gains on sale of assets of $0.3 million at Nanisivik in 2006 which did not recur in 2007.

Other non-producing property costs in the first six months of 2007 decreased by $1.8 million compared with the corresponding 2006 period primarily due to $1.0 million of costs incurred at the Caribou mine prior to its sale in August 2006 and a charge of $1.3 million to settle a claim against the Company partially offset by gains on sale of assets at Nanisivik in 2006 which did not recur in 2007.

Income and Mining Tax Provision (Recovery)

Income and mining tax recovery in the second quarter of 2007 was $4.7 million compared with a provision of $2.8 million in the second quarter of 2006. The $7.5 million change was primarily due to the recognition of a $14.2 million income tax recovery at Langlois partially offset by increased income tax provisions of $6.1 million and $1.7 million at Mochito and Toqui. During the second quarter of 2007, the Company determined that Langlois would generate future taxable income which would be offset by available loss carry forwards and other tax shelters. As a result, the Company set up a future income tax asset and recorded a corresponding income tax recovery. This determination was based on the Company's future operating and capital plans and metal price expectations. This income tax asset will be drawn down and charged to income as taxable income is earned at Langlois.

The income and mining tax provision in the first six months of 2007 was $2.5 million compared with a recovery of $22.9 million in the first six months of 2006. The $25.4 million change was primarily due to a net change of $28.1 million at Myra Falls related to a future tax asset recognized in 2006 and income tax provision increases in 2007 of $5.5 million and $3.8 million at Mochito and Toqui respectively partially offset by the recognition of the $14.2 million future tax asset at Langlois noted above.

LIQUIDITY AND FINANCIAL POSITION REVIEW

Working Capital

Working capital at June 30, 2007 was $120.3 million compared with $109.9 million at December 31, 2006, an increase of $10.4 million.

Current Assets

Total current assets increased by $41.0 million to $238.5 million at June 30, 2007 compared with December 31, 2006. The main components of current asset changes were as follows:

- Cash and cash equivalents increased by $21.5 million reflecting improved cash flow generated by stronger metal prices
- Accounts receivable — concentrate decreased by $10.4 million primarily due to a reduction in concentrates shipped late in the second quarter of 2007 compared with concentrates shipped late in the fourth quarter of 2006
- Concentrate inventory increased by $16.3 million due to the tonnes of concentrate in inventory increasing by 27,380 tonnes to 89,471 tonnes at June 30, 2007
- The current portion of future income tax assets increased by $4.2 million primarily due to a $5.7 million increase related to the recognition of the current portion of the Langlois future tax asset recognized in the second quarter of 2007

Current Liabilities

Current liabilities increased by $30.6 million to $118.2 million at June 30, 2007 compared with December 31, 2006. The $30.6 million increase was primarily due to an increase in provisional payments for concentrate inventory shipped and not priced which represent payments received for concentrate shipments that were not recognized as revenue. The balance at June 30, 2007 was $54.5 million compared with $24.2 million at December 31, 2006. Please refer to the table in Gross Sales Revenue section of this MD&A for additional details.

Long-term Investments

At June 30, 2007, long-term investments were $36.7 million, an increased of $22.0 million from $14.7 million at December 31, 2006. The increase was primarily due to new accounting requirements for financial instruments and comprehensive income required by the Canadian Institute of Chartered Accountants (“CICA”) and adopted by the Company on January 1, 2007. Please refer to note 2 of the Company’s second quarter 2007 financial statements.

Restricted Promissory Note

The Company held two restricted promissory notes at June 30, 2007 and December 31, 2006 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 relates to the royalty amounts received from the 2004 and 2005 Red Mile transactions. See restricted promissory note 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. As there is no law, regulation or contract currently in Honduras related to reclamation and closure costs, GAAP does not permit the Company to set up a liability for reclamation at Mochito.

At June 30, 2007, total accrued reclamation and closure costs were $39.3 million compared with $40.6 million at December 31, 2006. Of the $39.3 million, $7.3 million is classified as current and is expected to be spent over the next 12 months at Myra Falls, Bouchard-Hébert, Nanisivik and Bougrine.

---

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

Reclamation and Closure Cost Accrual at June 30, 2007

($ millions)	Current	Long-term	Total
Myra Falls	2.2	25.1	27.3
Mochito	0.0	1.3	1.3
Toqui	0.0	3.6	3.6
Langlois	0.0	1.3	1.3
Bouchard-Hébert	1.8	0.1	1.9
Nanisivik	2.5	0.4	2.9
Bougrine	0.8	0.2	1.0
Total	**7.3**	**32.0**	**39.3**

The Company incurred expenditures of $1.1 million in reclamation and closure costs in the second quarter of 2007 compared with $2.0 million in the second quarter of 2006. For the first six months of 2007, the Company incurred expenditures of $2.4 million in reclamation and closure costs compared with $3.7 million in the first six months of 2006. The decreased reclamation and closure cost expenditures in both the second quarter and first six months of 2007 compared with the corresponding periods in 2006 were primarily due to significantly reduced expenditures at Bouchard-Hébert partially offset by increased expenditures for the Myra Falls tailings facility modifications.

Shareholders' Equity

Shareholders' equity at June 30, 2007 was $384.4 million compared with $308.6 million at December 31, 2006. The increase of $75.8 million was primarily due to net earnings of $54.0 million, the exercise of $6.2 million of warrants and the impact of adopting new accounting policies as required by the CICA of $17.7 million.

Shareholders' Equity

($000's)	Capital stock	Warrants	Contributed surplus	Retained earnings	Other comprehensive income	Cumulative translation adjustments	Total shareholders' equity
As at December 31, 2006	167,093	8,561	793	139,795	–	(7,689)	308,553
Adjustment of opening balance on adoption of CICA accounting policy	–	–	–	5,706	4,291	7,689	17,686
Value ascribed to options exercised under stock–based compensation	704	–	(704)	–	–	–	0
Employee share option plan – proceeds of options exercised	1,428	–	–	–	–	–	1,428
Employee share purchase plan	156	–	–	–	–	–	156
Exercise of warrants	6,192	–	–	–	–	–	6,192
Stock-based compensation	–	–	1,081	–	–	–	1,081
Cancellation of shares	(211)	–	211	–	–	–	0
Other comprehensive loss	–	–	–	–	(4,703)	–	(4,703)
Net earnings	–	–	–	53,969	–	–	53,969
As at June 30, 2007	**175,362**	**8,561**	**1,381**	**199,470**	**(412)**	**0**	**384,362**

In the first six months of 2007, the Company issued the following Common Shares: 1,823,456 following the exercise of employee share options; 90,215 pursuant to the Company's employee share purchase plan; and, 30,801,410 pursuant to warrants exercised. On March 2, 2007 and March 14, 2007, Dundee Corporation ("Dundee") exercised 15,400,705 and 15,400,705 warrants respectively to purchase 30,801,410 Common Shares at $0.20 per Common Share.

Capital Expenditures

The Company invested $57.0 million in mineral properties and fixed assets in the first six months of 2007.

Of the $57.0 million noted above, $22.8 million related to capital expenditures at Langlois and consisted primarily of $11.9 million of underground development for Langlois, $9.5 million of underground development, preproduction and equipment for Grevet B and $4.1 million of equipment, buildings and infrastructure at Langlois partially offset by $3.6 million of preproduction contribution from mining operations.

Myra Falls' capital expenditures of $11.8 million in the first six months of 2007 consisted primarily of $2.7 million of mobile equipment purchases, $3.4 million for development at Lynx 5/6, $2.9 million of deferred development, $0.9 million for a new tailings disposal area and $1.3 million for ramp development.

In the first six months of 2007, $9.8 million of capital expenditures at Mochito consisted primarily of $3.3 million repairs to the new tailings facility and upgrading and closure costs of the old tailings facility, $3.9 million for equipment and buildings and $2.6 million of mine development.

Toqui capital expenditures of $10.1 million in the first six months of 2007 consisted primarily of $7.0 million of development, $1.2 million of equipment purchases and mill modifications and $0.8 million for the intense leach reactor construction and commissioning.

Financial Capability

With the existing working capital, the current metal prices and current C$/US$ exchange rate, the Company is well positioned to carry out its operating, capital, exploration and environmental programs in 2007. The Company's financial capability is sensitive to metal prices, smelter treatment charges and the C$/US$ exchange rate. Please refer to pages seven and eight of the Company's 2006 Annual Report.

OPERATING REVIEW – QUARTERS ENDED JUNE 30, 2007 AND 2006

	Net revenue		Contribution (loss) from mining activities [1]		Depreciation, depletion, reclamation and closure costs		Capital expenditures	
($ millions)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Myra Falls	**33.1**	39.6	**10.9**	15.2	**2.6**	1.4	**5.3**	4.9
Mochito	**32.9**	17.8	**24.0**	11.4	**1.3**	1.1	**6.6**	2.6
Toqui	**12.1**	18.7	**8.5**	11.9	**0.7**	0.9	**6.1**	4.4
Langlois [3]	**0.0**	0.0	**(0.0)**	0.0	**0.0**	0.0	**13.3**	6.3
Other	**0.0**	(0.4) [2]	**(0.3)**	(0.9)	**0.2**	0.5	**2.1**	0.0
Total	**78.1**	75.7	**43.1**	37.6	**4.8**	3.9	**33.4**	18.2

[1] After non-cash costs.

[2] Net realised from metal hedging activities.

[3] First concentrate shipped November 2006 and commenced commercial production on July 1, 2007.

OPERATING REVIEW – FIRST SIX MONTHS ENDED JUNE 30, 2007 AND 2006

	Net revenue		Contribution (loss) from mining activities [1]		Depreciation, depletion, reclamation and closure costs		Capital expenditures	
($ millions)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Myra Falls	**47.4**	67.9	**12.9**	22.3	**4.3**	4.6	**11.8**	8.6
Mochito	**53.7**	39.2	**39.0**	23.2	**2.3**	2.9	**9.8**	4.7
Toqui	**35.0**	28.7	**21.0**	18.3	**2.7**	1.5	**10.1**	5.6
Langlois [3]	**0.0**	0.0	**(0.1)**	(0.1)	**0.1**	0.1	**22.8**	8.5
Other	**0.0**	(4.3) [2]	**(0.3)**	(5.0)	**0.5**	0.7	**2.5**	0.0
Total	**136.1**	131.5	**72.5**	58.7	**9.9**	9.8	**57.0**	27.4

[1] After non-cash costs.

[2] Net realised from metal hedging activities.

[3] First concentrate shipped November 2006 and commenced commercial production on July 1, 2007.

Production Results

Consolidated production is set forth in the following table. The production results section includes the production of Langlois since November 2006. For accounting purposes, Langlois production is not recognized on the income statement until after the commencement of commercial production – July 1, 2007.

All Mines	Second Quarter		First Six Months	
	2007	2006	2007	2006
Ore Milled *(tonnes)*	592,301	492,395	1,139,716	1,019,975
Zinc *(%)*	5.8	5.8	5.8	5.9
Concentrate Production *(tonnes)*				
Zinc	59,148	49,159	113,946	103,036
Copper	10,837	5,720	17,051	13,063
Lead	4,130	4,049	8,684	7,772
Gold	1,481	978	2,810	2,164
Metal in Concentrates				
Zinc *(tonnes)*	30,599	25,254	58,133	53,132
Copper *(tonnes)*	2,484	1,357	3,836	3,108
Lead *(tonnes)*	2,662	2,753	5,796	5,289
Silver *(ounces)*	712,451	678,906	1,532,318	1,348,887
Gold *(ounces)*	11,717	14,327	31,914	31,602

Aggregate production of zinc in concentrate in the second quarter of 2007 was 67.5 million pounds compared with 55.7 million pounds in 2006, a 21% increase. The increase was primarily due to improved zinc grades and tonnes milled at Myra Falls together with production from Langlois, which was not in commercial production during the second quarter of 2006.

Zinc Production	Second Quarter			First Six Months		
(million pounds of zinc contained in concentrate)	2007	2006	%	2007	2006	%
Myra Falls	19.7	19.2	2.6	35.0	42.0	(16.7)
Mochito	15.8	20.5	(22.9)	34.3	43.6	(21.3)
Toqui	16.1	16.0	0.6	33.5	31.5	6.3
Langlois [a]	15.9	0.0	–	25.4	0.0	–
Total zinc production	67.5	55.7	21.2	128.2	117.1	9.5

[a] First concentrate shipped November 2006 and commenced commercial production on July 1, 2007.

Production of copper in concentrate increased 83% in the second quarter of 2007 from the same period in 2006 due to greater tonnes milled and improved copper grades at Myra Falls together with production from Langlois, which was not in commercial production during the second quarter of 2006.

Copper Production	Second Quarter			First Six Months		
(million pounds of copper contained in concentrate)	2007	2006	%	2007	2006	%
Myra Falls	4.9	3.0	63.3	7.5	6.9	8.7
Langlois [a]	0.6	0.0	–	1.0	0.0	–
Total copper production	5.5	3.0	83.3	8.5	6.9	23.2

[a] First concentrate shipped November 2006 and commenced commercial production on July 1, 2007.

Production of lead in concentrate decreased 3% during the second quarter of 2007 due to fewer tonnes milled at Mochito.

Lead Production	Second Quarter			First Six Months		
(million pounds of lead contained in concentrate)	2007	2006	%	2007	2006	%
Mochito	5.9	6.1	(3.3)	12.8	11.6	10.3
Total lead production	5.9	6.1	(3.3)	12.8	11.6	10.3

Silver in concentrate increased 5%, quarter over quarter, despite lower silver grades from Myra Falls, due to higher silver production at Mochito and Toqui together with production from Langlois, which was not in commercial production during the second quarter of 2006.

Silver Production	**Second Quarter**			**First Six Months**		
(ounces of silver contained in concentrate)	**2007**	2006	%	**2007**	2006	%
Myra Falls	**185,433**	222,501	(16.7)	**515,583**	447,726	15.2
Mochito	**459,829**	436,351	5.4	**908,215**	865,563	4.9
Toqui	**27,226**	20,054	35.8	**49,472**	35,598	39.0
Langlois [(a)]	**39,963**	–	–	**59,048**	–	–
Total silver production	**712,451**	678,906	4.9	**1,532,318**	1,348,887	13.6

[(a)] First concentrate shipped November 2006 and commenced commercial production on July 1, 2007.

Gold in concentrate decreased 18% in the second quarter of 2007 from the same period in 2006 due to lower gold head grades at Myra Falls and less gold production from Toqui due to the scheduling of production from the Aserradero deposit.

Gold Production	**Second Quarter**			**First Six Months**		
(ounces of gold contained in concentrate)	**2007**	2006	%	**2007**	2006	%
Myra Falls	**5,175**	5,569	(7.1)	**11,491**	11,546	(0.5)
Toqui	**6,542**	8,758	(25.3)	**20,423**	20,056	1.8
Total gold production	**11,717**	14,327	(18.2)	**31,914**	31,602	1.0

Myra Falls Production

The following table sets forth Myra Falls' production for the periods presented.

	Second Quarter		**First Six Months**	
	2007	2006	**2007**	2006
Ore Milled (tonnes)	**202,930**	188,098	**388,326**	396,417
Zinc *(%)*	**5.1**	5.3	**4.8**	5.6
Copper *(%)*	**1.4**	0.9	**1.1**	1.0
Silver *(g/t)*	**35**	47	**49**	45
Gold *(g/t)*	**1.2**	1.5	**1.4**	1.6
Concentrate Production				
Zinc (tonnes)	**16,799**	17,005	**30,498**	36,579
Zinc Recovery *(%)*	**85.4**	87.1	**85.6**	85.5
Zinc Grade *(%)*	**53.0**	51.3	**52.0**	52.1
Gold Recovery *(%)*	**20.2**	17.6	**20.3**	17.0
Gold Grade *(g/t)*	**3.0**	3.0	**3.7**	3.0
Copper (tonnes)	**9,532**	5,720	**14,934**	13,063
Copper Recovery *(%)*	**80.0**	76.3	**77.7**	75.3
Copper Grade *(%)*	**23.0**	23.7	**22.7**	23.8
Gold Recovery *(%)*	**41.5**	31.9	**43.1**	26.9
Gold Grade *(g/t)*	**11.1**	16.0	**15.9**	13.4
Gold (tonnes)	**0.1**	1.6	**0.4**	11.4
Recovery *(%)*	**3.9**	9.0	**3.2**	11.8
Grade *(g/t)*	**17,496**	18,477	**9,400**	6,515
Metal in Concentrates				
Zinc *(tonnes)*	**8,915**	8,730	**15,868**	19,065
Copper *(tonnes)*	**2,196**	1,357	**3,389**	3,108
Silver *(ounces)*	**185,433**	222,501	**515,583**	447,726
Gold *(ounces)*	**5,175**	5,569	**11,491**	11,546
Total cash costs per lb. payable zinc sold *(US$)*	**0.88**	0.12	**0.77**	0.59

Production of zinc in concentrate was 2% greater in the second quarter of 2007 compared with the same period in 2006 and 28% greater than the first quarter of 2007 due to more tonnes milled at higher zinc grades.

The construction of the new tailings facility is on schedule.

Myra Falls Outlook

Development of the surface ramp to the west is continuing with the objective of connecting with the ventilation system in the western extent of the currently known mine. Once connected, it will provide good ventilation for mining the Gopher, Main and Upper zones as well as for future long term development. Development of the high grade zones in the Battle Gap continues with mining of the first high grade area expected early in the third quarter of 2007. Mining in the open pit has entered the second phase with a pushback to the west which is expected to access additional high grade copper mineralization. Milling of this material is anticipated to commence near the end of the third quarter and continue through the fourth quarter of 2007. The development to access the Lynx 5 deposit has reached mineralization. A detailed interpretation of the zones is being finalized and mining is expected to continue through the remainder of 2007 and into 2008. Development, to intersect an internal orepass, is continuing. This will allow material to be transferred to Lynx 10 level. Work on installing and upgrading the systems and infrastructure necessary to develop the Price deposit continues in a number of areas. Production mining is expected to commence in late 2007 or early 2008.

The directional drilling program to upgrade the resources in the Marshall is underway. The 24 level drilling proved to be difficult due to ground conditions. The program is now being drilled from the 18 level.

Mochito Production

The following table sets forth Mochito's production for the periods presented.

	Second Quarter		First Six Months	
	2007	2006	**2007**	2006
Ore Milled *(tonnes)*	**151,219**	168,722	**306,403**	352,151
Zinc *(%)*	**5.3**	6.1	**5.7**	6.2
Lead *(%)*	**2.3**	2.1	**2.4**	1.9
Silver *(g/t)*	**110**	92	**107**	88
Concentrate Production				
Zinc *(tonnes)*	**13,927**	17,633	**30,275**	37,832
Recovery *(%)*	**88.7**	90.2	**89.1**	90.8
Grade *(%)*	**51.5**	52.7	**51.4**	52.3
Lead *(tonnes)*	**4,130**	4,049	**8,684**	7,772
Recovery *(%)*	**78.4**	80.6	**78.8**	80.6
Grade *(%)*	**64.5**	68.0	**66.8**	68.0
Metal in Concentrates				
Zinc *(tonnes)*	**7,165**	9,286	**15,543**	19,786
Lead *(tonnes)*	**2,662**	2,753	**5,796**	5,289
Silver *(ounces)*	**459,829**	436,351	**908,215**	865,563
Total cash costs per lb.payable zinc sold *(US$)*	**(0.28)**	(0.01)	**(0.18)**	0.27

As planned, milled tonnage decreased during the second quarter of 2007 from the same period in 2006. Mining activities were focused on developing new production areas as well as developing exploration headings.

Less zinc in concentrate was produced during the second quarter of 2007 compared with the same period in 2006 due to fewer tonnes milled at lower zinc grades. Production of lead in concentrate was slightly lower during the second quarter of 2007 compared with the same period in 2006 due to fewer tonnes milled.

Mochito Outlook

During the second quarter of 2007, an additional flotation cell bank was added to the lead circuit which is expected to improve lead recoveries during the third quarter of 2007.

The Soledad tailings impoundment area was commissioned in the second quarter of 2007 following a delay in commissioning when storm damage in August 2006 necessitated a repair to the geo-membrane liner. This tailings impoundment area is expected to have capacity for seven years production at current production rates. With Soledad now in full operation, reclamation work will commence on the Pozo Azul tailings impoundment area.

The collective bargaining agreement at Mochito is scheduled to expire in October 2007 and the first meeting with representatives of the employees is scheduled for early August.

During 2007, the Company will continue to explore and delineate new mineral resources and reserves in several areas of mine. Drilling in the Santo Niño area continues to show promising results with increases expected in resources and reserves. Likewise, the exploration and delineation drilling results from the La Leona trend are favourable and are expected to add resources and reserves to the mine. Exploration drilling on the Barbasco–Imperial trend has identified additional chimney style mineralization in this area. Upward extensions of the chimney style mineralization in the Mackenny/Nacional Pipe area were identified by drilling as well. Beginning in the third quarter of 2007, the drilling will test the manto style mineralization between the Salva Vida/San Jose and Yojoa areas of the mine and additional drilling on the Santo Niño Chimney will focus on determining its geometry and grade. In the latter part of 2007, exploration drilling will target the most easterly portion of the existing mine. Limited drilling in this area, called Deep East, has intercepted economic grade chimney style mineralization and planned exploration will test the potential for manto style mineralization below the chimneys in this area. A second drill is being brought in for this campaign.

The Company continues its surface exploration program at Mochito with two large diamond drills, capable of testing the mineral potential of deep targets, currently focused on drilling two target areas with pronounced geochemical and magnetic anomalies. Three holes targeting the Big Fuzzy, located roughly 2.5 kilometres east of the mine, have been completed and have discovered manto style Pb-Zn skarn mineralization. Stepout drilling on Big Fuzzy is planned to identify in on the extent, style, and grade of the skarn mineralization. On the western side of the Mochito graben, three holes have been completed at the Arandanos target with one hole identifying native copper and trace amounts of skarn alteration minerals. Drilling of two other surface targets, ML2 and ML3, is planned for the second half of 2007 and will test the mineral potential at the projected intersections of known structures which control the mineralization in the mine. The ML2 target is coincident to a prominent soil geochemical anomaly.

Toqui Production

The following table sets forth Toqui's production for the periods presented.

	Second Quarter		First Six Months	
	2007	2006	**2007**	2006
Ore Milled *(tonnes)*	**128,837**	135,575	**258,470**	271,407
Zinc *(%)*	**6.3**	5.9	**6.5**	5.8
Gold *(g/t)*	**2.0**	2.3	**3.0**	2.6
Concentrate Production				
Zinc (tonnes)	**14,806**	14,521	**30,798**	28,625
Recovery *(%)*	**88.8**	90.4	**90.0**	90.5
Grade *(%)*	**49.5**	49.9	**49.3**	49.9
Gold (tonnes)	**1,481**	976	**2,810**	2,152
Recovery *(%)*	**61.8**	69.6	**59.4**	68.8
Grade *(g/t)*	**89.6**	197.7	**145.6**	209.2
Metal in Concentrates				
Zinc *(tonnes)*	**7,323**	7,238	**15,191**	14,281
Silver *(ounces)*	**27,226**	20,054	**49,472**	35,598
Gold *(ounces)*	**6,542**	8,758	**20,423**	20,056
Total cash costs per lb. payable zinc sold *(US$)*	**0.60**	0.69	**0.77**	0.56

Fewer tonnes were milled during the second quarter of 2007 than the same period in 2006 due to a planned shutdown of one of the ball mills for a bull gear change out and severe winter conditions which hampered mill operations in June. The first doré from the newly installed Gekko intense leach reactor was produced in April 2007. The Gekko plant experienced normal start-up issues and, during the third quarter of 2007, is expected to reach full capacity.

Production of zinc in concentrate increased slightly during the second quarter of 2007 compared with the same period in 2006 due to higher zinc grades, while gold produced decreased due to lower tonnage and grades.

During the second quarter of 2007, ramp development to access the Concordia deposit reached the North Block. Production from Concordia during the second half of 2007 is likely to be less than originally planned due to the greater complexity and somewhat reduced tonnage of the North Block, as indicated by in-fill drilling. Development continues to access the Concordia South Block.

Toqui Outlook

The collective bargaining agreement at Toqui is scheduled to expire in September 2007 and negotiations with the union are expected to commence in mid-August 2007.

As disclosed in a news release issued June 22, 2007, exploration conducted thus far this year has increased the proven and probable mineral reserves at Toqui by 50% (34% on a contained zinc basis) and the measured and indicated resources, which resources include the proven and probable reserves, by 37% (23% on a contained zinc basis). Further, the work completed at Toqui has improved the Company's understanding of the potential size and location of sufficient additional mineralization to give the Company the confidence to commence a pre-feasibility study for a 1.0 million tonne per annum mill as this operation is currently limited by the capacity of the mill which runs at 1,475 tonnes per day or a current maximum of 540,000 tonnes per annum.

During the first half of 2007, 25,500 metres of diamond drilling in 90 drill holes was completed with the objective to explore the Altazor and Melchor targets and confirm the shape of the Porvenir deposit. The Toqui exploration program is based on a large geochemical, geophysical and geological database and the completion of a total of 50,822 metres of diamond drilling over the last 1½ year period.

During the second quarter of 2007, four diamond drills drilled a total of 9,820 metres of in-fill and definition drilling on the Porvenir and the Concordia deposits. The in-fill drilling has defined a large new mineral resource for the Porvenir deposit. In-fill drilling will continue in the third quarter of 2007. Plans are currently being developed for access to and mining of the Porvenir deposit.

Exploration drilling is a major component of a $10 million budget that also includes testing of some high-priority distal stratigraphic targets outside of the defined deposits within a defined NW-SE anomalous trend. The more distal target drilling has proved the potential for continuity south-east of the known mineralization within the favourable trend where the Toqui mineralized system is hosted.

Langlois Production

Langlois, which is situated in north-western Québec approximately 213 kilometres north of Val-d'Or, reached commercial production as of July 1, 2007. Production commenced during the fourth quarter of 2006 in Zones 3 and 4 with a total of 186,517 tonnes milled during the first half of 2007.

The quality of the concentrate increased steadily throughout the second quarter of 2007 as the mill was fine tuned. Iron content in the zinc concentrate was reduced while the concentrate grade was improved.

Development drifts continue to be driven between Zone 3, Zone 4 and Zone 97 to the east on levels 4, 9 and 13. During the second quarter of 2007, a ramp was started from level 9 to access 97 Zone between level 9 and level 4 as well as a decline to access 97 Zone between level 9 and level 13.

A new ramp from surface was collared during the first quarter of 2007. By the beginning of the third quarter of 2007, the new ramp had accessed the upper portions of Zone 4 between the current mining areas and surface. The mining of this material is not included in the current mine plan and, although lower grade, is economic at current prices.

Production during the second quarter of 2007 also included the processing of material from the Grevet B deposit, located three kilometres south-east of Langlois. During the second quarter of 2007, the Certificate of Authorization was received from the Ministère du Développement durable, de l'Environnement et des Parcs for the Grevet B mine allowing the Grevet B material to be mined and milled during 2007 and 2008.

The Company currently has five diamond drills operating on the property on surface, two for exploration of Zone 3, two focused on the lower portion of Zone 97 and one on the Grevet B deposit.

The following table sets forth Langlois' production for the first quarter of 2007.

	Second Quarter	First Six Months
Ore Milled (tonnes)	109,315	186,517
Zinc *(%)*	7.2	6.9
Copper *(%)*	0.4	0.4
Silver *(g/t)*	32	30
Concentrate Production		
Zinc *(tonnes)*	13,616	22,375
Recovery *(%)*	91.4	89.8
Grade *(%)*	52.6	51.4
Copper *(tonnes)*	1,305	2,117
Recovery *(%)*	67.8	65.1
Grade *(%)*	22.1	21.1
Metal in Concentrates		
Zinc *(tonnes)*	7,196	11,531
Copper *(tonnes)*	288	447
Silver *(ounces)*	39,963	59,048

Langlois Outlook

A 47,000 metre diamond drill program is currently being conducted to investigate the highly prospective extensions of all the known zones containing resources and reserves at the mine. This program will cover an area of 800 vertical metres from surface by two kilometres along the strike of the Langlois deposit. One objective of this program is to move some of the known inferred resources into the indicated category. Very few of the proximal zone extensions have been tested from underground due to a lack of development.

For the second quarter of 2007, 14,473 metres of drilling were completed. Zones 3, 4 and 97 surface and underground extensions were drilled from both surface and underground. For Zone 3, economic mineralization appears to extend to the surface and consequently a new resource estimate from surface to 130 metres below surface was prepared. A possible surface extension of Zone 97 has been tested using two drill rigs and results show lower potential for mineralization. From underground, Zone 97 west extension was tested from level 13 following a promising intersection obtained in 2006 from surface drilling which was located about 400 metres west of the currently known Zone 97. A number of intercepts with sub economic to economic values were found and drilling is continuing. Additional shallow surface holes will be drilled on the east extension of Zone 97 to test extensions of this zone to surface.

During the third quarter of 2007, Zone 2 (parallel to Zone 3 but about 20-30 metres further north) and Zone 3 will be tested from surface with the objective of upgrading some inferred resources to the indicated category. The Zone 3 east extension, located between level 6 and 8, will be drilled in order to upgrade inferred resources to the reserve category. Drilling of the Zone 3 east plunge extension between levels 11 and 13 will continue with an underground drill rig on level 13 as the economic continuity has yet to be determined. The west, east and down plunge extensions of Zone 4 will also be tested from underground.

Drilling on Zone 5 has successfully outlined a westerly dipping volcanogenic massive sulfide ("VMS") lens. A mineral resource estimate is being prepared which should be available in the third quarter of 2007. A second phase delineation program will also be conducted in the third quarter to upgrade inferred mineral resources into the indicated mineral resource category. A request for a bulk sampling permit for Zone 5 will be filed early in the third quarter of 2007. Mining and milling this bulk sample should provide the Company with the metallurgical information necessary to prepare a mine plan for this deposit. Following receipt of the necessary permit it is anticipated that this bulk sample will be processed during the last quarter of 2007.

During 2007, all of the zones will be reinterpreted and re-modeled to incorporate forecast base metal prices, lower cut-off grades and incorporation of all diamond drill intersections and channel samples in order to redefine the economic envelope. By the end of 2007, it is expected that a fully integrated 3D block model will have been developed for Langlois with which to calculate new resource and reserve estimates.

During the first quarter of 2007, Metco Resources Inc. ("Metco") announced that a pre-feasibility study would be conducted in 2007 on the Orphée deposit (50% Breakwater, 50% Metco). Should the results of the pre-feasibility be positive, the Orphée deposit, located six kilometres from the Langlois mill, could provide additional mill feed for Langlois, which currently has excess mill capacity. Breakwater conducted a delineation drilling program over the western part of the Orphée deposit, of which it owns 100% of the mining rights, to enhance the scope of the pre-feasibility study.

Coulon Project

In the second quarter of 2007, Virginia Mines Inc. ("Virginia") continued drilling on the Coulon project, located in the James Bay region of Québec. In accordance with an agreement entered into in May 2006, the Company has the option to acquire a 50% interest in the Coulon property in return for $6.5 million in exploration expenditures and cash payments totalling $180,000 over an eight-year period. Mobilization of a second deep drilling rig is scheduled for mid-July 2007 in order to accelerate the exploration work. In the third quarter of 2007, two deep rigs will focus on delineating additional resources within lenses 44 and 9-25 and a heliborne drill rig will continue exploring for new drill targets on a regional scale. The Company expects to fulfill its earn-in commitments by the end of 2007.

Drill results released by Virginia on July 11, 2007 indicated excellent continuity of the Coulon mineralized system over more than 14 kilometres along strike. Lens 44 and 9-25 have been intercepted at depths to 380 and 550 metres respectively and both are open at depth in all directions.

Trieste Project

On June 14, 2007, the Company signed an option agreement with Virginia on the Trieste property, which is also located in the James Bay area of Québec. Under the terms of the agreement, the Company has the option to acquire a 50% interest in the property, in exchange for $1.0 million exploration work before May 8, 2011 and payments totalling $50,000. Virginia will be the operator. 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 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. Geological mapping and prospecting is planned during the summer of 2007.

Other Properties

The reclamation work is largely complete at the Bouchard-Hébert, Bougrine and Nanisivik properties, with Nanisivik to be fully reclaimed in 2007. The mills at Bouchard-Hébert and Bougrine remain intact pending exploration results elsewhere throughout the Company's properties.

NON-GAAP RECONCILIATION

Total cash costs per pound of payable zinc sold is furnished to provide additional information and is a non-GAAP measure. This measure should not be considered in isolation as a substitute for measures of performance prepared in accordance with GAAP and is not necessarily indicative of cash provided from operating activities or operating expenses as determined under GAAP. This measure is intended to provide investors with information about the cash generating capabilities of the Company's operating activities in a given period which is the same purpose for which the Company uses this information. This MD&A and the second quarter 2007 financial statements of the Company discuss the components not included in this non-GAAP measure.

Non-GAAP reconciliation of total cash cost per pound of payable zinc sold to consolidated financial statements

	Second Quarter		First Six Months	
	2007	2006	**2007**	2006
By-product credit *($ millions)*				
Gross sales revenue per financial statements	**(103.4)**	(101.2)	**(181.3)**	(181.9)
Less zinc sales revenue	**66.9**	54.6	**117.3**	126.7
	(36.5)	(46.6)	**(64.0)**	(55.2)
Treatments and marketing charges *($ millions)* per financial statements	**25.3**	25.5	**45.2**	50.4
Direct operating costs *($ millions)* per financial statements	**30.2**	34.2	**53.8**	63.0
Total cash costs – C$ *(millions)*	**19.0**	13.1	**35.0**	58.2
C$/US$ exchange rate	**1.1500**	1.1100	**1.1585**	1.1500
Total cash costs – US$ *(millions)*	**16.5**	11.8	**30.2**	50.6
Zinc pounds sold *(millions)*	**36.4**	37.3	**64.1**	99.2
Total cash cost per pound of payable zinc sold *(US$)*				
By-product credit	**(0.87)**	(1.13)	**(0.86)**	(0.48)
Treatment and marketing costs	**0.60**	0.62	**0.61**	0.44
Direct operating costs	**0.72**	0.83	**0.72**	0.55
Total	**0.45**	0.32	**0.47**	0.51

SUMMARY OF QUARTERLY RESULTS

	2005[a] Q3	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	**2007 Q2**
Gross sales revenue *($ millions)*	71.9	57.4	80.7	101.2	112.0	158.3	77.9	**103.4**
Net earning (loss) *($ millions)*	(1.2)	9.3	38.3	28.6	39.2	50.4	15.3	**38.7**
Basic earnings per share	$0.00	$0.02	$0.10	$0.08	$0.10	$0.13	$0.04	**$0.09**
Weighted-average number of Common Shares outstanding *(millions)*	369.5	374.2	382.0	383.8	384.3	385.0	396.4	**418.0**
Diluted earnings per share	$0.00	$0.02	$0.09	$0.07	$0.09	$0.12	$0.04	**$0.09**
C$/US$ realized exchange rate	1.2019	1.1744	1.1559	1.1239	1.1187	1.1422	1.1683	**1.0914**
Average realized zinc price *(US$/t)*	1,296	1,502	2,221	2,895	3,363	4,227	3,434	**3,710**
Average realized zinc price *(C$/t)*	1,558	1,764	2,567	3,226	3,762	4,828	4,012	**4,049**
Concentrate tonnes sold[b]	80,205	60,391	67,355	59,779	61,385	73,230	39,333	**51,553**
Concentrate tonnes produced[c]	76,014	68,841	66,129	59,906	59,420	67,058	66,895	**75,596**

[a] Includes results of the Bougrine mine which closed in September 2005.

[b] Excludes tonnes sold from Langlois prior to the commencement of commercial production on July 1, 2007.

[c] Includes tonnes produced from Langlois from November 2006, the date of first concentrate shipment.

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 dollars, the US dollar's general weakening against the Canadian dollar over the past eight quarters has reduced the realized Canadian dollar gross sales revenue.

TRANSACTIONS WITH RELATED PARTIES

In the first six months of 2007, an affiliated company of a significant shareholder of the Company provided consulting services of $50,000.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The notes to the Company's December 31, 2006 audited consolidated financial statements outline the Company's significant accounting policies. Note 2 to the second quarter 2007 financial statements describes changes to the Company's accounting policies. Pages 25 and 26 of the 2006 Annual 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 2006 Annual Report to review that discussion.

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 13 of the second quarter 2007 financial statements of the Company.

Common Shares or Securities Convertible into Common Shares	**July 25, 2007**
Issued and outstanding	418,420,646
Share options outstanding weighted-average exercise price $1.18	8,529,477
Warrants granted at $1.00, expire January 28, 2009 – traded on TSX	33,538,329
Future fully diluted	**460,488,452**

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 Report and Form 40-F/Annual Information Form filed with the Canadian securities regulators and the United States Securities and Exchange Commission (the "SEC"), as applicable, a copy of which is posted on the SEDAR website at www.sedar.com and/or the SEC's website at www.sec.gov.

CAUTION ON FORWARD-LOOKING INFORMATION

This MD&A 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, lead, gold 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

Financial Instruments, Hedges and Comprehensive Income

On January 1, 2007, the Company adopted the CICA's new accounting requirements for securities, hedging derivatives and certain other financial instruments. Under these new rules, the Company is required to measure certain securities and hedging derivatives at fair value and include a new section in Shareholders' Equity, called Other Comprehensive Income, to report unrealized gains or losses related to: certain available-for-sale securities, cash flow hedges and foreign exchange gains or losses on the Company's net investment in foreign operations.

Certain of the Company's investment securities (referred to as available-for-sale securities) are recorded at fair value under the new rules; however, the requirements for recognizing gains or losses in net income are unchanged. Unrealized gains or losses are deferred in Other Comprehensive Income until the securities are sold or there is an impairment that is other than temporary. It is only at that time that any gain or loss is recorded in net earnings. Securities whose sale is restricted or that are not traded in an active market are also included in available-for-sale securities, but continue to be recorded at cost.

Any hedging derivatives that the Company enters into in the future will be recorded at fair value under the new rules, but changes in fair value will only impact net earnings to the extent that they do not perfectly offset changes in the fair value of the item that the Company is hedging (i.e.: hedge ineffectiveness). Any hedge ineffectiveness would be recorded in net earnings. For any of the Company's future hedging programs, it is expected that such hedges would very closely match the items that the Company hedges and, as a result, the Company would not expect a significant amount of hedge ineffectiveness to arise.

For details of the specific accounting changes and related impacts, refer to note 2 of the second quarter 2007 financial statements of the Company.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

A financial governance framework is in place at the Company and its subsidiaries at both the management and board levels. Each year, the Company's Annual Report contains a statement signed by the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") outlining management's responsibility for financial information contained in the report. The Company filed certifications, signed by the CEO and CFO, with the Canadian Securities Administrators in April 2007 when the Company filed its Annual Report and other annual disclosure documents. In those filings, the Company's CEO and CFO certify, as required by Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings) ("MI 52-109") the appropriateness of the financial disclosures in the Company's annual filings and the effectiveness of its disclosure controls and procedures.

As part of the Company's annual assessment process, the Company's management, including the CEO and CFO, evaluated the effectiveness of the Company's internal control over financial reporting using the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that internal control over financial reporting was effective as of December 31, 2006. The Company's CEO and CFO certified the foregoing, as required by MI 52-109.

The Company's CEO and CFO certified the appropriateness of the financial disclosures in the Company's interim MD&A and unaudited consolidated financial statements for the period ended June 30, 2007. They also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the first six months ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As in prior quarters, the Company's audit committee reviewed this MD&A and the attached second quarter 2007 financial statements of the Company, and the Company's Board of Directors approved the documents prior to their release.

A discussion of the Company's businesses, strategies and objectives can be found in Management's Discussion and Analysis in the Company's 2006 Annual Report, which can be accessed on the Company's web site at www.breakwater.ca. Readers are also encouraged to visit the site to view other quarterly financial information.

Consolidated Balance Sheets

(Expressed in thousands of Canadian dollars)
(Unaudited)

	June 30, 2007	December 31, 2006
Assets		
Current		
Cash and cash equivalents	**102,930**	81,412
Restricted cash *(note 3)*	**1,054**	1,221
Short-term investments *(note 4)*	**4,358**	4,120
Accounts receivable – concentrate	**2,277**	12,687
Other receivables	**17,933**	12,676
Concentrate inventory *(note 5)*	**60,032**	43,686
Materials and supplies inventory	**25,381**	22,904
Prepaid expenses and other current assets	**5,624**	4,029
Future income tax assets *(note 12)*	**18,911**	14,745
Total current assets	**238,500**	197,480
Future income tax asset, long-term *(note 12)*	**15,842**	13,440
Reclamation deposits *(note 6)*	**13,500**	13,500
Mineral properties and fixed assets	**249,086**	207,884
Long-term investments *(note 7)*	**36,659**	14,704
Restricted promissory notes	**62,285**	62,285
	615,872	509,293
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	**47,233**	43,128
Provisional payments for concentrate inventory shipped and not priced	**54,535**	24,246
Short-term debt including current portion of long-term debt *(note 8)*	**190**	2,169
Income and mining taxes payable	**8,904**	9,798
Current portion of reclamation, closure cost accruals and other environmental obligations *(note 10)*	**7,332**	8,267
Total current liabilities	**118,194**	87,608
Deferred income	**5,971**	6,277
Long-term lease obligations	**358**	501
Royalty obligations	**62,479**	62,479
Long-term loan *(note 9)*	**1,851**	–
Reclamation, closure cost accruals and other environmental obligations *(note 10)*	**31,999**	32,293
Employee future benefits *(note 11)*	**3,747**	4,493
Future income tax liabilities *(note 12)*	**6,911**	7,089
Total liabilities	**231,510**	200,740
Shareholders' equity *(note 13)*	**384,362**	308,553
	615,872	509,293

Contingencies and commitments *(note 15)*.

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 (Deficit)

(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	**2007**	2006	**2007**	2006
		(restated – see note 2)		*(restated – see note 2)*
Gross sales revenue	**103,401**	101,202	**181,348**	181,860
Treatment and marketing costs	**25,311**	25,540	**45,231**	50,389
Net revenue	**78,090**	75,662	**136,117**	131,471
Operating costs				
Direct operating costs	**30,187**	34,178	**53,780**	62,991
Depreciation and depletion	**4,042**	2,896	**8,144**	7,935
Reclamation and closure costs	**769**	943	**1,722**	1,885
	34,998	38,017	**63,646**	72,811
Contribution from mining activities	**43,092**	37,645	**72,471**	58,660
Other expenses (income)				
General and administrative	**3,431**	3,675	**7,394**	7,216
Interest and financing	**977**	1,525	**2,133**	2,938
Investment and other income	**(4,952)**	(1,716)	**(6,642)**	(3,303)
Other	**6,338**	(655)	**6,629**	600
	5,794	2,829	**9,514**	7,451
Earnings before the following:	**37,298**	34,816	**62,957**	51,209
Exploration expenses *(note 2(b))*	**2,920**	2,860	**5,591**	4,491
Other non-producing property costs	**411**	551	**906**	2,667
Income and mining tax provision (recovery) *(note 12)*	**(4,712)**	2,817	**2,491**	(22,875)
	(1,381)	6,228	**8,988**	(15,717)
Net earnings	**38,679**	28,588	**53,969**	66,926
Retained earnings (deficit), beginning of period	**160,791**	(151,325)	**139,795**	(189,663)
Changes in accounting policy *(note 2)*	**–**	172,928	**5,706**	172,928
Retained earnings, end of period	**199,470**	50,191	**199,470**	50,191
Basic earnings per Common Share *(note 18)*	**0.09**	0.07	**0.13**	0.17
Diluted earnings per Common Share *(note 18)*	**0.09**	0.07	**0.12**	0.16
Basic weighted-average number of Common Shares outstanding *(000's)* *(note 18)*	**417,982**	383,672	**407,211**	382,817

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

BREAKWATER RESOURCES LTD.

Consolidated Statement of Accumulated Other Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars)
(Unaudited)

For the six month period ended June 30	2007
Accumulated other comprehensive income, beginning of period *(note 2(a))*	11,980
Reclassification of cumulative translation adjustments *(note 2(a))*	(7,689)
Other comprehensive loss	(4,703)
Accumulated other comprehensive loss, end of period *(note 13)*	(412)

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

BREAKWATER RESOURCES LTD.

Consolidated Statements of Other Comprehensive Income

(Expressed in thousands of Canadian dollars)
(Unaudited)

For the periods ended June 30	Three Months Ended 2007	Six Months Ended 2007
Net earnings	38,679	53,969
Other comprehensive income (loss), net of income taxes:		
Unrealized losses on translating financial statements of self sustaining foreign operations	(4,321)	(4,937)
Unrealized loss on short-term available-for-sale securities, net of income tax provision of $41,000 (3 months - $4,000) *(note 4)*	(43)	(210)
Unrealized gain on long-term available-for-sale securities, net of income tax provision of $87,000 (3 months - $27,000) *(note 7)*	148	444
Other comprehensive loss, net of income taxes	(4,216)	(4,703)
Comprehensive income	34,463	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	**2007**	2006	**2007**	2006
		(restated – see note 2)		*(restated – see note 2)*
Operating Activities				
Net earnings	**38,679**	28,588	**53,969**	66,926
Items not affecting cash:				
Depreciation and depletion	**4,042**	2,896	**8,144**	7,935
Gain on sale of investment	**–**	–	**(306)**	–
Unrealized gain on investments	**(2,628)**	–	**(5,235)**	–
Other non-cash items	**(303)**	(813)	**(203)**	514
Stock-based compensation *(note 13)*	**552**	623	**1,081**	1,019
Issue of Common Shares to settle litigation	**–**	848	**–**	848
Unrealized deferred income	**(153)**	(153)	**(306)**	(306)
Future income taxes *(note 12)*	**(14,507)**	1,305	**(6,789)**	(24,686)
Reclamation, closure cost accruals and other environmental obligations	**769**	943	**1,722**	1,885
Employee future benefits *(note 11)*	**371**	444	**766**	887
	(11,857)	6,093	**(1,126)**	(11,904)
Payment of reclamation, closure cost accruals and other environmental obligations	**(1,142)**	(2,039)	**(2,377)**	(3,721)
Payment of employee future benefits	**(772)**	(743)	**(1,512)**	(1,490)
Changes in non-cash working capital items *(note 17)*	**17,407**	11,162	**20,601**	19,958
Net cash provided by operating activities	**42,315**	43,061	**69,555**	69,769
Investing Activities				
Reclamation deposits	**–**	883	**–**	(12,679)
Short-term investments	**–**	–	**1,033**	2,305
Mineral properties and fixed assets	**(33,358)**	(18,152)	**(57,036)**	(27,368)
Proceeds from sale of fixed assets	**272**	208	**290**	208
Net cash used in investing activities	**(33,086)**	(17,061)	**(55,713)**	(37,534)
Financing Activities				
(Increase) decrease in restricted cash *(note 3)*	**(21)**	(626)	**167**	(223)
Issue of Common Shares for cash *(note 13)*	**1,020**	268	**7,777**	990
Deferred financing fees	**–**	–	**–**	(223)
Decrease in long-term lease obligations	**(67)**	(124)	**(143)**	(248)
Decrease in short-term debt	**(387)**	(13,772)	**(125)**	(10,925)
Net cash provided by (used in) financing activities	**545**	(14,254)	**7,676**	(10,629)
Net increase in cash during the period	**9,774**	11,746	**21,518**	21,606
Cash and cash equivalents, beginning of period	**93,156**	28,609	**81,412**	18,749
Cash and cash equivalents, end of period	**102,930**	40,355	**102,930**	40,355
Supplemental Information				
Cash interest paid	**28**	365	**235**	583
Cash income and mining taxes paid	**12,292**	162	**12,292**	343

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

Notes to the Consolidated Financial Statements

For the periods ended June 30, 2007 and 2006
(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, 2007 and 2006 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, 2006, 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 2006 Annual Report.

New Pronouncements Not Adopted

The Canadian Institute of Chartered Accountants ("CICA") issued the following accounting standards effective for the fiscal years beginning on or after October 1, 2007 and January 1, 2008:

a) 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 is effective for the fiscal years beginning on or after January 1, 2008.

b) Accounting Standards Section 3862 "Financial Instruments – Disclosures" requires 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 accounting standard is effective for fiscal years beginning on or after October 1, 2007.

The Company has not yet determined the impact of adopting the above accounting standards.

2006 Figures

Certain of the 2006 figures have been reclassified to conform to the 2007 presentation.

2. Changes in Accounting Policies

a) On January 1, 2007, the Company adopted the following CICA accounting standards which were effective for fiscal years beginning on or after October 1, 2006 (i) Accounting Standards Section 1530 "Comprehensive Income"; (ii) Accounting Standards Section 3855 "Financial Instruments – Recognition and Measurement"; (iii) Accounting Standards Section 3861 "Financial Instruments – Presentation and Disclosure"; and, (iv) Accounting Standards Section 3865 – "Hedges". These sections require certain financial instruments and hedge positions to be recorded at fair value.

Adoption of these standards is on a prospective basis without retroactive restatement of prior periods, except for the reclassification of equity balances to reflect "Accumulated other comprehensive income" ("AOCI") which will include unrealized foreign currency translation adjustments for self-sustaining foreign operations. At January 1, 2007, the unrealized foreign currency translation loss for self-sustaining foreign operations of $7,689,000 was reclassified to AOCI.

As required under CICA Section 1530 "Comprehensive income", the consolidated financial statements now include consolidated statements of Other comprehensive income ("OCI"), which are comprised of net earnings and other comprehensive income. Other comprehensive income includes unrealized gains or losses related to available-for-sale securities, unrealized foreign exchange gains or losses on the net investment in self-sustaining foreign operations and reclassification of any realized gains or losses related to available-for-sale securities to earnings.

Under the new standard, financial instruments designated as "held-for-trading" and "available-for-sale" will be carried at their fair value while financial instruments such as "loans and receivables", "financial liabilities" and those classified as "held-to-maturity" will be carried at their amortized cost. Unrealized gains and losses on financial instruments designated as "held-for-trading" are recognized in earnings and unrealized gains and losses on financial instruments designated as "available-for-sale" are recognized in OCI. All derivatives will be carried on the consolidated balance sheets at their fair value, including derivatives designated as hedges. Unrealized gains and losses on effective cash flow hedges will be carried in AOCI, a component of "Shareholders' equity" on the consolidated balance sheets, while any gains or losses on ineffective hedges will be recognized in earnings. At the beginning of the fiscal year in which this standard is adopted, financial assets and financial liabilities have been remeasured at fair value. Financial assets classified as held-for-trading and the adjustments of the previous carrying amounts are recognized as adjustments to opening retained earnings at the beginning of the fiscal year. At January 1, 2007, the adjustment of $5,706,000 to retained earnings at the beginning of the period related to the remeasurement of held-for-trading securities of $303,000 and the conversion rights in the long-term debentures of $5,403,000 *(see notes 4 and 7).* For financial assets classified as available-for-sale, the adjustments of the previous carrying amounts are included as an opening balance in AOCI. At January 1, 2007, the adjustment to the opening balance of AOCI relating to the remeasurement of available-for-sale financial assets was $11,980,000 *(see notes 4 and 7).*

b) In the fourth quarter of 2006, the Company changed its accounting policy for exploration expenditures. Under the new policy, which was retroactively applied, all exploration expenditures are expensed as incurred until the mineral deposit is deemed commercially recoverable, at which time all subsequent development costs are capitalized.

The effect of this change on the consolidated financial statements is as follows:

Increase (decrease) in the consolidated statements of operations and retained earnings (deficit) and balance sheet amounts for the periods ended June 30, 2006:

($000's except per share amounts)	**Three Months Ended June 30, 2006**	**Six Months Ended June 30, 2006**
Depreciation and depletion	(298)	(600)
Exploration expenses	1,165	1,996
Net earnings	(867)	(1,396)
Deficit, beginning of period	(17,264)	(16,735)
Deficit, end of period	(18,131)	(18,131)
Basic earnings per Common Share	$(0.00)	$(0.00)
Diluted earnings per Common Share	$(0.00)	$(0.00)
Mineral properties and fixed assets	(288)	(15,367)
Cumulative translation adjustments	579	2,764

3. Restricted Cash

The restricted cash balance at June 30, 2007, of $1,054,000 (December 31, 2006 - $1,221,000), includes $804,000 (December 31, 2006 - $971,000) placed on deposit to cover certain reclamation costs *(see note 6)* and $250,000 (December 31, 2006 - $250,000) to guarantee an operating lease.

4. Short-term Investments

($000's)	**June 30, 2007**	December 31, 2006
Marketable securities:		
Available-for-sale (quoted market value: December 31, 2006 - $1,226)	**976**	218
Held-for-trading (quoted market value: December 31, 2006 - $4,275)	**3,382**	3,902
	4,358	4,120

Marketable securities at June 30, 2007 are carried at fair value with the net unrealized loss on available-for-sale securities for the three and six months ended June 30, 2007 of $43,000 and $210,000 recorded in OCI until realized and the unrealized loss of $13,000 and the unrealized gain of $139,000 on held-for-trading securities for the same periods recorded in earnings. Marketable securities at December 31, 2006 were carried at cost, which was lower than the quoted market value. At January 1, 2007, the available-for-sale and held-for-trading securities were remeasured at fair value and the unrealized gains of $827,000 and $303,000 are included as an opening adjustment to the AOCI balance at the beginning of the period, and as an adjustment to opening retained earnings, respectively *(see note 2).*

5. Concentrate Inventory

Concentrate inventory as at June 30, 2007 includes an amount of $30,587,000 (December 31, 2006 - $20,245,000) 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, 2006.

6. Reclamation Deposits

Cash collateral on deposit at June 30, 2007 of $13,500,000 (December 31, 2006 - $13,500,000), related to future reclamation activities, are held by third parties to fund future reclamation costs at the Myra Falls mine.

7. Long-term Investments

Long-term investments are classified as available-for-sale securities and are carried at fair value at June 30, 2007. At December 31, 2006, long-term investments were valued at cost, net of other than temporary impairments in value. At June 30, 2007, the Company recorded for the three and six months ended June 30, 2007 unrealized gains on the long-term investments of $2,382,000 and $1,682,000 respectively which included unrealized gains of $2,213,000 and $1,151,000 respectively for the valuation of the conversion rights which are considered embedded derivatives and recorded through earnings and unrealized gains of $169,000 and $531,000 respectively for the increase in fair value of the debentures which are recorded in OCI. At January 1, 2007, the long-term investments were measured at fair value and the unrealized gain of $11,153,000 for the increase in fair value of the debentures was included in AOCI at the beginning of the period, and the unrealized gain of $5,403,000 relating to the remeasurement of the conversion rights was included in opening retained earnings *(see note 2).*

($000's)	**June 30, 2007**	December 31, 2006
Blue Note Metals Inc. unsecured convertible debenture	**21,133**	9,089
Taseko Mines Limited unsecured convertible debenture (fair market value: December 31 2006 - $10,569)	**15,526**	5,615
	36,659	14,704

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.

The unsecured convertible debenture from Taseko Mines Limited ("Taseko") was issued on July 21, 1999, for $17,000,000 and matures on July 21, 2009 and does not bear interest. The debenture is convertible into common shares of Taseko over a ten-year period from the date of issuance commencing at a price of $3.14 per share escalating by $0.25 each year thereafter. From the fifth anniversary date until the tenth anniversary, the outstanding principal may, at the election of Taseko, be converted into common shares at the then prevailing share price. Management determined the fair value of the debenture on acquisition to be $5,615,000.

8. Short-term Debt

($000's)	**June 30, 2007**	December 31, 2006
Reimbursable government assistance, unsecured, non-interest bearing current portion *(note 9)*	**190**	2,041
Other	**–**	128
	190	2,169

9. Long-term Debt

($000's)	June 30, 2007	December 31, 2006
Reimbursable government assistance, unsecured, non-interest bearing	**2,041**	2,041
Less current portion	**(190)**	(2,041)
	1,851	–

In May 2007, the Company renegotiated the repayment terms for the reimbursable government assistance which relates to the Langlois mine with the government of Quebec. The reimbursable government assistance consists of an amount of $500,000 relating to Zone 97 and $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 $1,541,000 will be repaid by an instalment of $190,000 on April 1, 2008 and three annual instalments of $300,000 with a final instalment on April 1, 2012 of $451,000.

10. Reclamation, Closure Cost Accruals and Other Environmental Obligations

($000's)	June 30, 2007	December 31, 2006
Asset retirement obligations	**32,710**	33,015
Closure cost accruals	**1,783**	2,059
Other environmental obligations	**4,838**	5,486
	39,331	40,560
Less current portion	**7,332**	8,267
	31,999	32,293

Other environmental obligations represent expenditures required to complete modifications to the tailings facility at the Myra Falls mine. The Company expects to complete the required work by 2008. The estimated obligation was recorded and is being reduced by actual expenditures incurred. As at June 30, 2007, the expenditures since acquisition have been $10,026,000 (December 31, 2006 - $9,378,000). The current portion of $2,001,000 (December 31, 2006 - $2,001,000) 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, 2006	**33,015**
Change in timing of cash flow	6
Accretion (included in reclamation and closure costs)	609
Expenditures	(851)
Impact of foreign exchange	(47)
As at March 31, 2007	**32,732**
Accretion (included in reclamation and closure costs)	661
Expenditures	(324)
Impact of foreign exchange	(359)
As at June 30, 2007	**32,710**
Less: current portion included in Current portion of reclamation, closure cost accruals and other environmental obligations	4,828
	27,882

The estimated amount of undiscounted cash flow required to satisfy the asset retirement obligations as at June 30, 2007, was $99,173,000 (December 31, 2006 - $101,094,000). The expected timing of payments ranges from 2007 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% (2006 – 7.17% to 7.89%). The estimated amount of undiscounted cash flow for June 30, 2007, includes an amount of $66,329,000 (December 31, 2006 - $66,329,000) which is for water treatment at the Myra Falls mine in perpetuity.

11. Employee Future Benefits

The defined benefit pension plan cost for the three and six months ended June 30, 2007 were $371,000 (2006 - $444,000) and $766,000 (2006 - $887,000), respectively.

12. Income and Mining Taxes

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

($000's)	**June 30, 2007**	December 31, 2006
Future tax assets		
Loss carry forwards	**32,625**	26,540
Mineral properties and fixed assets	**220,291**	213,237
Reclamation and closure cost accruals	**12,652**	12,721
Deferred income	**2,057**	2,104
Future tax assets before valuation allowance	**267,625**	254,602
Valuation allowance	**232,872**	226,417
Future tax assets	**34,753**	28,185
Future tax liabilities		
Mineral properties – mining tax	**(6,911)**	(7,089)
Net future tax assets	**27,842**	21,096

	Three Months Ended June 30		*Six Months Ended June 30*	
($000's)	**2007**	2006	**2007**	2006
Income and mining tax provision (recovery)				
Current income and mining tax provision (recovery)	**9,811**	1,642	**13,294**	(368)
Future income and mining tax provision (recovery)	**(14,523)**	1,175	**(10,803)**	(22,507)
	(4,712)	2,817	**2,491**	(22,875)

13. Shareholders' Equity

Shareholders' equity consists of the following:

($000's)	June 30, 2007	December 31, 2006
		(restated – see note 2)
Capital stock	**175,362**	167,093
Warrants	**8,561**	8,561
Contributed surplus	**1,381**	793
Retained earnings *(note 2(a))*	**199,470**	139,795
Accumulated other comprehensive income *(note 2(a))*	**(412)**	(7,689)
	384,362	308,553

The Company is authorized to issue 200,000,000 preferred shares and an unlimited number of common shares ("Common Shares"). No preferred shares were issued or outstanding on June 30, 2007 and December 31, 2006.

Common shares issued: *(000's)*	Number of Shares	Amount $
As at December 31, 2006	385,646	167,093
Exercise of warrant (a)	30,802	6,160
Employee share option plan – proceeds of options exercised (c)	1,041	537
Value ascribed to options exercised under stock-based compensation (c)	–	321
Employee share purchase plan	37	60
As at March 31, 2007	**417,526**	**174,171**
Exercise of warrants	32	32
Employee share option plan – proceeds of options exercised (c)	783	891
Value ascribed to options exercised under stock-based compensation (c)	–	383
Employee share purchase plan	53	96
Cancellation of shares (b)	(121)	(211)
As at June 30, 2007	**418,273**	**175,362**

a) In consideration for restructuring a debt facility in 2001 and 2002, Dundee Corporation ("Dundee") received warrants to purchase an aggregate of 30,801,410 Common Shares at $0.20 per Common Share. One-half of these warrants were exercisable until March 2, 2007 and the remainder were exercisable until May 2, 2007. No value was ascribed to these warrants on the date of issue. On March 2, 2007 and March 14, 2007, Dundee exercised 15,400,705 and 15,400,705 warrants respectively to purchase 30,801,410 Common Shares at $0.20 per Common Share. At June 30, 2007, none of these warrants were outstanding (December 31, 2006 - 30,801,410).

b) In November 2000, the Company acquired Jascan Resources Inc. and as part of the purchase consideration issued 9,491,162 common shares at an ascribed value of $1.75 per share. Under the agreement any unclaimed common shares would be held in trust for a period of six years ("expiration"). After the expiration date any unclaimed common shares would revert back to the Company. In April 2007, 120,747 unclaimed common shares were released to the Company and were subsequently cancelled and the par value of the common shares of $211,000 was transferred from share capital to contributed surplus.

c) Share option transactions were as follows:

	Options *(000's)*	Weighted-average exercise price
As at December 31, 2006	9,535	$1.00
Granted	740	2.09
Exercised	(1,041)	0.52
Forfeited	(112)	1.41
Expired	(150)	3.25
As at March 31, 2007	8,972	$1.11
Granted	600	2.72
Exercised	(783)	1.14
Forfeited	(104)	1.81
Expired	(50)	3.98
As at June 30, 2007	8,635	$1.18

As at June 30, 2007:

	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	2,929	3 years 31 days	$0.32	2,792	$0.32
$0.51 - $1.50	3,261	3 years 18 days	$0.97	2,681	$0.93
$1.51 - $3.00	2,075	4 years 167 days	$2.11	758	$2.17
$3.01 - $8.20	370	1 year 236 days	$4.67	370	$4.67
	8,635			**6,601**	

The Company's Share Option Plan is described in note 14(d) of the Company's audited consolidated financial statements for the year ended December 31, 2006. 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, 2007 of $1,081,000 (2006 - $1,019,000) less the initial fair value of options exercised of $704,000 (2006 - $400,000), for a net amount of $377,000 (2006 - $619,000) 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*	
	2007	2006	**2007**	2006
Weighted-average exercise price per Common Share	**$2.72**	$1.21	**$2.37**	$1.14
Weighted-average quoted market price per Common Share at date of grant	**$2.72**	$1.21	**$2.37**	$1.14
Weighted-average grant-date fair value price per Common Share	**$1.33**	$0.74	**1.26**	$0.69
Expected life (years)	**3.5**	5	**4.3**	5
Risk free interest rate	**4.62%**	4.53%	**4.28%**	4.40%
Expected volatility	**63%**	70%	**64%**	70%
Dividend yield	**0%**	0%	**0%**	0%

14. Related Party Transactions

All related party transactions are disclosed elsewhere in these consolidated financial statements *(note 13(a))* except that for the six month period ended June 30, 2007, consulting fees of $50,000 (2006 - $Nil) were paid to Dundee Securities Corporation, an affiliate of a significant shareholder of the Company.

15. Contingencies and Commitments

There were no significant changes in contingencies and commitments in the six month period ended June 30, 2007. The contingencies and commitments are described in note 20 of the Company's audited consolidated financial statements for the year ended December 31, 2006.

16. Segment Information

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

Operating Segment	El Mochito mine	El Toqui mine	Myra Falls mine	Langlois mine	Total
Gross sales revenue	61,532	56,420	63,396	–	181,348
Treatment and marketing costs	(7,764)	(21,457)	(16,010)	–	(45,231)
Net revenue	53,768	34,963	47,386	–	136,117
Direct operating costs	(12,412)	(11,176)	(30,192)	–	(53,780)
Depreciation and depletion	(1,918)	(2,590)	(3,535)	–	(8,043)
Reclamation and closure costs	(421)	(146)	(804)	(54)	(1,425)
Contribution (loss) from mining activities	39,017	21,051	12,855	(54)	72,869
General and administrative	–	–	–	–	–
Interest and financing	–	–	–	–	–
Investment and other income	–	–	–	–	–
Other	–	–	–	–	–
Exploration expenses	(1,203)	(2,100)	(1,793)	–	(5,096)
Other non-producing property costs	–	–	–	–	–
Income and mining tax (provision) recovery	(10,708)	(3,159)	(3,009)	14,342	(2,534)
Net earnings (loss)	27,106	15,792	8,053	14,288	65,239
Capital expenditures	9,848	10,057	11,789	22,763	54,457
Mineral properties and fixed assets	26,235	29,061	72,039	112,158	239,493
Identifiable assets	54,543	57,112	229,512	119,435	460,602

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

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

For the Six Months Ended June 30, 2006 *($000's) (Unaudited) (restated – see note 2)*

Operating Segment	El Mochito mine	El Toqui mine	Myra Falls mine	Langlois mine	Total
Gross sales revenue	51,921	41,846	92,528	–	186,295
Treatment and marketing costs	(12,673)	(13,114)	(24,670)	–	(50,457)
Net revenue	39,248	28,732	67,858	–	135,838
Direct operating costs	(13,126)	(8,943)	(40,922)	–	(62,991)
Depreciation and depletion	(2,642)	(1,366)	(3,877)	–	(7,885)
Reclamation and closure costs	(297)	(150)	(749)	(50)	(1,246)
Contribution (loss) from mining activities	23,183	18,273	22,310	(50)	63,716
General and administrative	–	–	–	–	–
Interest and financing	–	–	–	–	–
Investment and other income	–	–	–	–	–
Other	–	–	(1,076)	–	(1,076)
Exploration expenses	(565)	(1,049)	(200)	–	(1,814)
Other non-producing property (costs) income	–	–	–	–	–
Income and mining tax (provision) recovery	(5,161)	599	25,068	–	20,506
Net earnings (loss)	17,457	17,823	46,102	(50)	81,332
Capital expenditures	4,682	5,550	8,557	8,475	27,264
Mineral properties and fixed assets	18,225	23,719	61,260	58,195	161,399
Identifiable assets	41,212	40,763	208,677	61,530	352,182

Information about major customers – Summary of net revenue from major customers for the six month period ended June 30, 2006.

Revenue Source	Revenue Generated From			
($000's)	Myra Falls	El Mochito	El Toqui	Total
Customer 1	26,704	–	–	26,704
Customer 2	19,008	–	1,619	20,627
Customer 3	7,953	1,598	7,593	17,144
Customer 4	–	16,543	–	16,543
Customer 5	653	11,929	1,304	13,886

Bougrine mine	Bouchard-Hébert mine	Nanisivik mine	Caribou mine	Total	Corporate and Other	Consolidated
–	–	–	–	–	–	181,348
–	–	–	–	–	–	(45,231)
–	–	–	–	–	–	136,117
–	–	–	–	–	–	(53,780)
–	–	–	–	–	(101)	(8,144)
(113)	(86)	(98)	–	(297)	–	(1,722)
(113)	(86)	(98)	–	(297)	(101)	72,471
–	–	–	–	–	(7,394)	(7,394)
–	–	–	–	–	(2,133)	(2,133)
–	–	–	–	–	6,642	6,642
–	–	–	–	–	(6,629)	(6,629)
(204)	(291)	–	–	(495)	–	(5,591)
(458)	(395)	(8)	(40)	(901)	(5)	(906)
–	–	(67)	–	(67)	110	(2,491)
(775)	(772)	(173)	(40)	(1,760)	(9,510)	53,969
–	–	–	–	–	2,579	57,036
1,559	2,695	1,171	–	5,425	4,168	249,086
2,023	5,026	2,383	–	9,432	145,838	615,872

Bougrine mine	Bouchard-Hébert mine	Nanisivik mine	Caribou mine	Total	Corporate and Other	Consolidated
(52)	–	–	–	(52)	(4,383)	181,860
68	–	–	–	68	–	(50,389)
16	–	–	–	16	(4,383)	131,471
–	–	–	–	–	–	(62,991)
–	–	–	–	–	(50)	(7,935)
(116)	(207)	(109)	(207)	(639)	–	(1,885)
(100)	(207)	(109)	(207)	(623)	(4,433)	58,660
–	–	–	–	–	(7,216)	(7,216)
–	–	–	–	–	(2,938)	(2,938)
–	–	–	–	–	3,303	3,303
–	–	–	–	–	476	(600)
(383)	(2,294)	–	–	(2,677)	–	(4,491)
(405)	(329)	410	(2,357)	(2,681)	14	(2,667)
–	–	–	–	–	2,369	22,875
(888)	(2,830)	301	(2,564)	(5,981)	(8,425)	66,926
–	–	–	–	–	104	27,368
1,510	3,066	1,429	–	6,005	552	167,956
2,039	3,830	2,916	1,364	10,149	58,120	420,451

16. Segment Information

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

Operating Segment	El Mochito mine	El Toqui mine	Myra Falls mine	Langlois mine	Total
Gross sales revenue	38,590	19,194	45,617	–	103,401
Treatment and marketing costs	(5,745)	(7,057)	(12,509)	–	(25,311)
Net revenue	32,845	12,137	33,108	–	78,090
Direct operating costs	(7,584)	(2,945)	(19,658)	–	(30,187)
Depreciation and depletion	(1,207)	(589)	(2,194)	–	(3,990)
Reclamation and closure costs	(99)	(71)	(402)	(27)	(599)
Contribution (loss) from mining activities	23,955	8,532	10,854	(27)	43,314
General and administrative	–	–	–	–	–
Interest and financing	–	–	–	–	–
Investment and other income	–	–	–	–	–
Other foreign exchange loss	–	–	–	–	–
Exploration expenses	(765)	(916)	(1,058)	–	(2,739)
Other non-producing property (costs) income	–	–	–	–	–
Income and mining tax (provision) recovery	(7,292)	(1,600)	(1,331)	14,825	4,602
Net earnings (loss)	15,898	6,016	8,465	14,798	45,177
Capital expenditures	6,575	6,080	5,277	13,330	31,262

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

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

For the Three Months Ended June 30, 2006 *($000's) (Unaudited) (restated – see note 2)*

Operating Segment	El Mochito mine	El Toqui mine	Myra Falls mine	Langlois mine	Total
Gross sales revenue	21,699	28,568	51,392	–	101,659
Treatment and marketing costs	(3,910)	(9,838)	(11,791)	–	(25,539)
Net revenue	17,789	18,730	39,601	–	76,120
Direct operating costs	(5,261)	(5,899)	(23,018)	–	(34,178)
Depreciation and depletion	(981)	(874)	(1,012)	–	(2,867
Reclamation and closure costs	(147)	(74)	(375)	(25)	(621)
Contribution (loss) from mining activities	11,400	11,883	15,196	(25)	38,454
General and administrative	–	–	–	–	–
Interest and financing	–	–	–	–	–
Investment and other income	–	–	–	–	–
Other	–	–	20	–	20
Exploration expenses	(386)	(656)	(200)	–	(1,242)
Other non-producing property (costs) income	–	–	–	–	–
Income and mining tax (provision) recovery	(1,156)	194	(1,904)	–	(2,866)
Net earnings (loss)	9,858	11,421	13,112	(25)	34,366
Capital expenditures	2,578	4,368	4,861	6,255	18,062

Information about major customers – Summary of net revenue from major customers for the three month period ended June 30, 2006.

Revenue Source	Revenue Generated From			
($000's)	Myra Falls	El Mochito	El Toqui	Total
Customer 1	18,144	–	–	18,144
Customer 2	7,953	1,598	6,156	15,707
Customer 3	12,796	–	1,619	14,415
Customer 4	–	9,209	–	9,209
Customer 5	–	7,184	767	7,951

Bougrine mine	Bouchard-Hébert mine	Nanisivik mine	Caribou mine	Total	Corporate and Other	Consolidated
–	–	–	–	–	–	103,401
–	–	–		–	–	(25,311)
–	–	–	–	–	–	78,090
–	–	–	–	–	–	(30,187)
–	–	–	–	–	(52)	(4,042)
(78)	(43)	(49)	–	(170)	–	(769)
(78)	(43)	(49)	–	(170)	(52)	43,092
–	–	–	–	–	(3,431)	(3,431)
–	–	–	–	–	(977)	(977)
–	–	–	–	–	4,952	4,952
–	–	–	–	–	(6,338)	(6,338)
(110)	(71)	–	–	(181)	–	(2,920)
(184)	(186)	(7)	(36)	(413)	2	(411)
–	–	–	–	–	110	4,712
(372)	(300)	(56)	(36)	(764)	(5,734)	38,679
–	–	–	–	–	2,096	33,358

Bougrine mine	Bouchard-Hébert mine	Nanisivik mine	Caribou mine	Total	Corporate and Other	Consolidated
–	–	–	–	–	(457)	101,202
(1)	–	–	–	(1)	–	(25,540)
(1)	–	–	–	(1)	(457)	75,662
–	–	–	–	–	–	(34,178)
–	–	–	–	–	(29)	(2,896)
(61)	(103)	(55)	(103)	(322)	–	(943)
(62)	(103)	(55)	(103)	(323)	(486)	37,645
–	–	–	–	–	(3,675)	(3,675)
–	–	–	–	–	(1,525)	(1,525)
–	–	–	–	–	1,716	1,716
–	–	–	–	–	635	655
(124)	(1,494)	–	–	(1,618)	–	(2,860)
(79)	(272)	273	(523)	(601)	50	(551)
–	–	–	–	–	49	(2,817)
(265)	(1,869)	218	(626)	(2,542)	(3,236)	28,588
–	–	–	–	–	90	18,152

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

($000's)	Three Months Ended June 30 2007	2006	Six Months Ended June 30 2007	2006
Accounts receivable – concentrate	**1,335**	9,531	**13,064**	(6,259)
Other receivables	**(4,959)**	(5,280)	**(5,257)**	(4,351)
Concentrate inventory	**(6,245)**	4,545	**(16,876)**	2,221
Materials and supplies inventory	**(3,117)**	636	**(3,851)**	369
Prepaid expenses and other current assets	**341**	(482)	**(1,697)**	(1,254)
Accounts payable and accrued liabilities	**1,197**	141	**5,632**	(185)
Provisional payments for concentrate inventory shipped and not priced	**31,095**	2,116	**30,289**	29,236
Income and mining taxes payable	**(2,240)**	(45)	**(703)**	181
	17,407	11,162	**20,601**	19,958

18. 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 month period ended June 30, 2007 was $2.38 (2006 - $1.34) and during the six month period ended June 30, 2007 was $2.09 (2006 - $1.15).

	Three Months Ended June 30 2007	2006	Six Months Ended June 30 2007	2006
		(restated – see note 2)		*(restated – see note 2)*
Basic earnings per Common Share	**$0.09**	$0.07	**$0.13**	$0.17
Diluted earnings per Common Share	**$0.09**	$0.07	**$0.12**	$0.16
Basic weighted-average number of Common Shares outstanding *(000's)*	**417,982**	383,672	**407,211**	382,817
Incremental Common Shares on assumed exercise of options and warrants *(000's)*	**24,515**	39,706	**31,288**	34,346
Weighted-average number of Common Shares used for diluted earnings per Common Share *(000's)*	**442,497**	423,378	**438,499**	417,163

Corporate Information

DIRECTORS

Garth A. C. MacRae [1, 2, 3, 4]
Chairman

Grant A. Edey [1, 5]

Joanne Ferstman

Jonathan C. Goodman [5]

Ned Goodman

John W. Ivany

W. Murray John

George E. Pirie [3, 5]

A. Murray Sinclair, Jr. [1, 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

Jason Stevens
Executive Vice President, Legal
and Corporate Affairs & Secretary

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

Fred Hermann
Senior Vice President, Sustainability

Torben Jensen
Vice President, Engineering

Wes Roberts
Vice President, Corporate Development

Ann Wilkinson
Vice President, Investor Relations
and Assistant Secretary

Leroy Fong
Controller

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