BREAKWATER
RESOURCES LTD

Third 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 nine months ended September 30, 2007, and related notes thereto (the "third 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 on file with the Canadian provincial securities regulatory authorities. Unless otherwise indicated, this MD&A has been prepared as of October 31, 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 $7.8 million or $0.02 per share in the third quarter of 2007 compared with $39.2 million or $0.10 per share in the third quarter of 2006. The three main items affecting the drop in net earnings were:
    - concentrate shipped but not recognized as revenue in this period
    - the $13.8 million gain on sale of Caribou in 2006
    - higher exploration expenses
- Production in the third quarter of 2007 was 73,122 tonnes of concentrate compared with 59,420 tonnes in the third quarter of 2006
- Sales of concentrate in the third quarter of 2007 were 50,748 tonnes compared to 61,385 in the third quarter of 2006. The decrease was due to concentrate inventory shipped to smelters for which final pricing per the smelter contract terms had not occurred and therefore were not recognized as revenue in the quarter
- At September 30, 2007, 70,519 tonnes of concentrate inventories had been shipped to smelters. Had these inventories been priced and recognized as revenue, the Company estimates that earnings before tax would have increased by $29.4 million
- Concentrate inventories, including the 70,519 shipped to smelters noted above, were 111,413 tonnes at September 30, 2007 compared with 78,234 tonnes at September 30, 2006. Included in the 33,179 tonne increase in inventories from September 30, 2006 were 17,495 tonnes produced from Langlois and 8,334 produced from Myra Falls
- Settled new three-year labour contracts at Toqui and Mochito

- Gross sales revenue fell by 22% to $87.5 million in the third quarter of 2007 from $112.0 million in the third quarter of 2006 primarily due to fewer tonnes of concentrate sold
- The contribution from mining activities was $26.8 million in the third quarter of 2007 compared with $43.5 million in the third quarter of 2006. The $16.7 million decrease was due to a $16.0 million reduced contribution from Myra Falls in the third quarter of 2007 compared with the third quarter of 2006
- Net cash provided by operating activities was lower by $33.4 million than in the third quarter 2006 at $6.9 million in the third quarter of 2007 and was primarily used for $24.0 million of capital expenditures and $6.1 million of short-term investments
- Total cash costs per pound of payable zinc increased to US$0.61 per pound in the third quarter of 2007 from US$0.57 per pound in the third quarter of 2006. See the non-GAAP reconciliation section in this MD&A
- Prefeasibility study started for 1.0 million tonne per year mill at Toqui
- Completed expenditures necessary to earn a 50% interest in Coulon
- Completed in excess of 33 kilometres of drilling with encouraging results at Toqui, Langlois and Mochito

OUTLOOK

- At Mochito, the Pozo Azul tailings impoundment area was recommissioned following a discharge of water from the newly commissioned Soledad tailings impoundment area. Tests are ongoing in the mill to determine the optimum reagent mix required to control levels of copper in the effluent of Pozo Azul
- At Myra Falls, the connection of the surface ramp with the Lynx 15 level has increased ventilation capacity which will allow for increased production from the western area of the mine. The open pit copper and zinc zones will be mined in the fourth quarter of 2007
- Drilling at Toqui continues to support the recent decision to commence a prefeasibility study for a 1.0 million tonne per annum mill
- In the fourth quarter of 2007, drilling at Langlois is expected to upgrade known inferred resources to the indicated resource category as well as test a number of targets including the west extension of Zone 97
- Because of the uncertainties at Mochito, the Company is unable to provide production guidance at this time

STATEMENT OF OPERATIONS REVIEW – THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006

Gross Sales Revenue

Langlois entered commercial production on July 1, 2007. Of the 20,189 tonnes of concentrate produced in the third quarter of 2007, 2,694 tonnes were recognized as sold and the revenue has been included in the income statement. Net cash flow from concentrate produced at Langlois prior to June 30, 2007 reduced preproduction capital expenditures.

Gross sales revenue from the sale of zinc, copper, lead, and gold concentrates for the three month period ended September 30, 2007 (the "third quarter of 2007") decreased by $24.5 million (22%) compared with the three month period ended September 30, 2006 (the "third quarter of 2006"). Lower concentrate sales – 50,748 tonnes in 2007 compared with 61,385 tonnes in 2006, a stronger Canadian dollar and lower prices for zinc and copper accounted for the drop in gross sales revenue.

Concentrate sales in the quarter were lower due to significantly higher concentrate inventories at September 30, 2007 related to the timing of shipments and the related impact on revenue recognition.

Gross sales revenue for the nine month period ended September 30, 2007 (the "first nine months of 2007") decreased by $25.0 million (9%) compared with the nine month period ended September 30, 2006 (the "first nine months of 2006"). Lower concentrate sales of 141,635 tonnes in 2007 compared with 188,518 tonnes in 2006 and a stronger Canadian dollar, were partially offset by higher prices for zinc and lead, and a hedging loss in 2006 which did not recur in 2007.

Concentrate sales in the first nine months were down due to higher concentrate inventories at September 30, 2007 related to the timing of shipments and less concentrate was in inventory at the beginning of 2007 compared with 2006 making tonnes available for sale lower.

Gross Sales Revenue by Metal	**Third Quarter**		First Nine Months	
($ millions)	**2007**	2006	**2007**	2006
Zinc *(US$)*	**54.1**	68.0	**158.5**	179.4
Copper *(US$)*	**8.1**	18.0	**23.3**	39.3
Lead *(US$)*	**9.4**	2.5	**21.7**	8.5
Gold *(US$)*	**6.1**	5.1	**20.3**	15.6
Silver *(US$)*	**6.7**	6.3	**21.2**	14.2
Other	**0.0**	0.2	**0.9**	2.4
Total gross sales revenue *(US$)*	**84.4**	100.1	**245.9**	259.4
C$/US$ realized exchange rate	**1.0374**	1.1187	**1.0937**	1.1330
Total gross sales revenue *(C$)*	**87.5**	112.0	**268.9**	293.9

Sales by Concentrate	**Third Quarter**		First Nine Months	
(tonnes)	**2007**	2006	**2007**	2006
Zinc	**39,649**	47,198	**108,747**	150,474
Copper	**5,104**	10,638	**15,662**	25,120
Lead	**4,708**	3,310	**14,176**	11,635
Gold	**1,287**	239	**3,050**	1,289
Total	**50,748**	61,385	**141,635**	188,518

Sales by Payable Metal	**Third Quarter**		First Nine Months	
	2007	2006	**2007**	2006
Zinc *(tonnes)*	**16,891**	20,259	**45,968**	65,268
Copper *(tonnes)*	**1,059**	2,339	**3,268**	5,446
Lead *(tonnes)*	**2,900**	2,140	**9,039**	7,429
Gold *(ounces)*	**8,986**	8,354	**30,700**	31,607
Silver *(ounces)*	**517,161**	548,325	**1,609,060**	1,594,987

Realized Prices	Third Quarter		First Nine Months	
	2007	2006	**2007**	2006
Zinc *(US$/tonne)*	**3,200**	3,357	**3,448**	2,748
Copper *(US$/tonne)*	**7,609**	7,675	**7,143**	7,217
Lead *(US$/tonne)*	**3,231**	1,166	**2,406**	1,146
Gold *(US$/ounce)*	**674**	615	**662**	495
Silver *(US$/ounce)*	**12.97**	11.54	**13.16**	8.85

Average Metal Prices & Foreign Exchange Rate	Third Quarter		First Nine Months	
	2007	2006	**2007**	2006
Zinc *(US$/tonne)*	**3,228**	3,363	**3,449**	2,966
Copper *(US$/tonne)*	**7,707**	7,667	**7,092**	6,604
Lead *(US$/tonne)*	**3,143**	1,188	**2,367**	1,176
Gold *(US$/ounce)*	**680**	622	**666**	602
Silver *(US$/ounce)*	**12.70**	11.70	**13.12**	11.22
C$/US$ exchange rate	**1.0448**	1.1213	**1.1044**	1.1326

The Company has a conservative revenue recognition policy which, among other things, requires final pricing of concentrate inventories prior to recognizing revenue. Using commodity prices and exchange rates at September 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 provided as 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	65,746	60,915	36,586	24,329	45,570	1.7
Copper	2,619	4,986	3,742	1,244	4,341	2.1
Lead	1,903	4,895	1,265	3,630	4,593	2.0
Gold	251	396	217	179	0	1.0
	70,519	**71,192**	**41,810**	**29,382**	**54,504**	

At September 30, 2006, the Company estimated that inventories shipped but not recognized for revenue purposes had earnings before tax of $24.9 million consisting of $44.1 million of net smelter return less $19.2 million of inventory value on 37,127 tonnes of concentrate.

Net Revenue

Net revenue, the value of concentrates sold after deducting treatment charges and freight and marketing costs, contracted by 21% to $65.5 million in the third quarter of 2007 from $82.7 million in the third quarter of 2006. Treatment and marketing costs were 25% lower at $22.0 million in the third quarter of 2007 compared with $29.4 million in the third quarter of 2006 primarily due to fewer tonnes of concentrate sold and lower treatment costs for Toqui and Myra Falls. Treatment and marketing costs, as a percentage of gross sales revenue, declined slightly to 25% in the third quarter of 2007.

For the first nine months of 2007, net revenue decreased by 6% to $201.6 million compared with the first nine months of 2006. Treatment and marketing costs declined 16% to $67.3 million in the first nine months of 2007 compared with $79.8 million for the first nine months of 2006 primarily due to lower treatment costs for Mochito and Myra Falls partially offsetting higher treatment costs at Toqui. Treatment and marketing costs, as a percentage of gross sales revenue, declined from 27% in the first nine months of 2006 to 25% in 2007.

Direct Operating Costs

Direct operating costs were 3% lower in the third quarter of 2007 at $33.9 million compared with $34.9 million in the third quarter of 2006. The direct operating cost per tonne of concentrate sold increased to $668 in 2007 from $568 in 2006.

Direct Operating Costs

	Third Quarter 2007			Third Quarter 2006		
	Aggregate *($ millions)*	**Concentrate sold** *(tonnes)*	**Cost per tonne** *($)*	Aggregate *($ millions)*	Concentrate sold *(tonnes)*	Cost per tonne *($)*
Myra Falls	**18.8**	**18,819**	**998**	25.1	31,651	793
Langlois	**1.8**	**2,694**	**660**	0.0	0	n.a.
Mochito	**6.5**	**14,180**	**461**	7.4	21,750	342
Toqui	**6.8**	**15,055**	**451**	2.4	7,984	296
Total	**33.9**	**50,748**	**668**	34.9	61,385	568

For the first nine months of 2007, direct operating costs were $87.7 million compared with $97.9 million for the first nine months of 2006. The tonnes of concentrate sold and aggregate direct operating costs decreased by 25% and 10% respectively resulting in the average direct operating cost per tonne of concentrate sold increasing to $619 in 2007 from $519 in 2006.

Direct Operating Costs

	First Nine Months 2007			First Nine Months 2006		
	Aggregate *($ millions)*	**Concentrate sold** *(tonnes)*	**Cost per tonne** *($)*	Aggregate *($ millions)*	Concentrate sold *(tonnes)*	Cost per tonne *($)*
Myra Falls	**49.0**	**49,510**	**989**	66.0	90,856	727
Langlois	**1.8**	**2,694**	**660**	0.0	0	n.a.
Mochito	**18.9**	**44,801**	**423**	20.6	62,618	328
Toqui	**18.0**	**44,630**	**403**	11.3	35,044	323
Total	**87.7**	**141,635**	**619**	97.9	188,518	519

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$0.62 in the third quarter of 2007 compared with US$0.57 in the third quarter of 2006 (see non-GAAP reconciliation). The increase was primarily due to higher direct operating costs per pound of payable zinc sold partially offset by higher by-product credits for lead. Pounds of zinc sold decreased by 17% in 2007 compared with 2006.

The total cash cost per pound of payable zinc sold was US$0.53 in the first nine months of 2007 compared with US$0.53 in first nine months of 2006 (see non-GAAP reconciliation). Pounds of zinc sold decreased by 30% in 2007 compared with 2006.

Depreciation and Depletion

Despite fewer tonnes of concentrate sold in the third quarter and the first nine months of 2007 compared with the corresponding periods in 2006, depreciation and depletion increased by $0.4 million and $0.6 million respectively. This expense was higher in the third quarter of 2007 due to the commencement of commercial production at Langlois while the increase in the first nine months of 2007 was primarily due to Langlois as noted above and increased depreciation at Toqui partially offset by lower depreciation at Myra Falls and Mochito.

Other Expenses (Income)

Other expenses (income) rose by $1.3 million in the third quarter of 2007 compared with the third quarter of 2006. For the first nine months of 2007, other expense (income) increased by $3.3 million. These increases were due to foreign exchange losses from the rise of the Canadian dollar, more spent on consulting fees and salaries, partially offset by interest earned on larger cash balances, and unrealized gains on investments held for trading and on the conversion rights of the long-term investments.

Exploration Expenses

Exploration expenses were $5.3 million in the third quarter of 2007 and $10.9 million in the first nine months of 2007.

Exploration Expenditures

	Capital *($ millions)*	Expenses *($ millions)*	Total *($ millions)*
Toqui	5.3	2.5	7.8
Mochito	0.6	2.3	2.9
Langlois	2.6	2.5	5.1
Myra Falls	–	3.0	3.0
Non-operating	–	0.6	0.6
Corporate	7.3	–	7.3
Total	**15.8**	**10.9**	**26.7**

Refer to note 1 of the Company's audited consolidated financial statements for the year ended December 31, 2006 for the accounting treatment of exploration expenditures.

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. In the third quarter of 2006, the Company recorded a gain on sale of its Caribou property of $13.8 million and included this gain in other non-producing property costs. Excluding this gain, other non-producing property costs in the third quarter of 2007 fell by $0.4 million compared with the corresponding 2006 period primarily due to $0.3 million of costs incurred at Caribou prior to its sale in August 2006.

Excluding the gain on the Caribou sale, other non-producing property costs in the first nine months of 2007 decreased by $2.1 million compared with the corresponding 2006 period primarily due to $1.9 million of costs incurred at Caribou prior to its sale and a charge of $0.8 million to settle a claim against the Company partially offset by gains on sale of assets at Nanisivik in 2006.

Income and Mining Tax Provision (Recovery)

Income and mining tax provision in the third quarter of 2007 was $9.8 million compared with a provision of $12.5 million in the third quarter of 2006. The $2.7 million decrease was primarily due to an increase to the Quebec mining duties future tax liability of $6.0 million and a reduction of future tax assets at Mochito and Toqui by $2.8 million in the third quarter of 2006, partially offset by a reduction of a future tax asset at Myra Falls of $2.0 million in the third quarter of 2007 and by increased income tax provisions of $2.5 million and $2.2 million at Mochito and Toqui respectively in the third quarter of 2007.

The income and mining tax provision in the first nine months of 2007 was $12.3 million compared with a recovery of $10.4 million in the first nine months of 2006. The $22.7 million change was primarily due to a net change of $23.7 million at Myra Falls related to a future tax asset recognized in 2006 and income tax provision increases in 2007 of $11.6 million and $4.4 million at Mochito and Toqui respectively partially offset by the recognition of the $14.2 million future tax asset at Langlois in 2007.

LIQUIDITY AND FINANCIAL POSITION REVIEW

Working Capital

Working capital at September 30, 2007 was $107.0 million compared with $109.9 million at December 31, 2006, a decrease of $2.9 million.

Current Assets

Total current assets rose by $43.0 million to $240.4 million at September 30, 2007 compared with December 31, 2006. The main components of current asset changes were as follows:

- Concentrate inventory increased by $33.1 million due to the tonnes of concentrate in inventory increasing by 49,323 tonnes to 111,413 tonnes at September 30, 2007. Of the increased tonnes, 17,495 related to Langlois and 13,449 related to Myra Falls
- Prepaid expenses and other current assets increased by $6.1 million primarily due to a $3.8 million deferral of stripping costs at Myra Falls related to the Lynx pit and $2.0 million of prepaid freight associated with concentrate inventory shipped but not priced
- Short-term investments rose by $4.2 million due to an acquisition of shares in certain public companies and mark-to-market adjustments
- Accounts receivable – concentrate decreased by $8.6 million primarily due to higher levels of concentrate inventory shipped but not priced net of price adjustments
- The current portion of future income tax assets rose by $2.0 million primarily due to a $6.1 million increase related to the recognition of the current portion of the Langlois future tax asset recognized in the second quarter of 2007 and a reduction of future tax assets of $3.3 million and $1.2 million at Myra Falls and Toqui respectively

Current Liabilities

Current liabilities increased by $45.9 million to $133.5 million at September 30, 2007 compared with December 31, 2006. The main components of the current liability changes were as follows:

- Provisional payments for concentrate inventory shipped and not priced, which represent payments received for concentrate shipments that were not recognized as revenue, increased by $30.3 million. The balance at September 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
- Accounts payable and accrued liabilities increased by $16.9 million primarily due to $5.1 million of provisional payments returnable to customers related to a fall in metal prices from the time the initial provisional payment was received to September 30, 2007 and a $9.0 million increase in accounts payable and accrued liabilities at Myra Falls due to contractors employed on various capital and development projects

Long-term Investments

At September 30, 2007, long-term investments were $41.9 million, up $27.2 million from $14.7 million at December 31, 2006. The increase was 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 third quarter 2007 financial statements.

Restricted Promissory Note

The Company held two restricted promissory notes at September 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 September 30, 2007, total accrued reclamation and closure costs were $37.2 million compared with $40.6 million at December 31, 2006. Of the $37.2 million, $7.1 million is classified as current and is expected to be spent over the next 12 months at Myra Falls, Bouchard-Hébert, Nanisivik and Bougrine.

Reclamation and Closure Cost Accrual at September 30, 2007

($ millions)	**Current**	**Long-term**	**Total**
Myra Falls	2.2	23.5	25.7
Mochito	0.0	1.1	1.1
Toqui	0.0	3.4	3.4
Langlois	0.0	1.3	1.3
Bouchard-Hébert	1.8	0.1	1.9
Nanisivik	2.3	0.5	2.8
Bougrine	0.8	0.2	1.0
Total	**7.1**	**30.1**	**37.2**

The Company spent $2.7 million in reclamation and closure costs in the third quarter of 2007 compared with $2.1 million in the third quarter of 2006. For the first nine months of 2007, the Company spent $5.1 million compared with $5.9 million in the same period of 2006.

[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.

Shareholders' Equity

Shareholders' equity at September 30, 2007 was $389.4 million compared with $308.6 million at December 31, 2006. The increase of $80.8 million was primarily due to net earnings of $61.7 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 comprehen-sive 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	1,046	–	(1,046)	–	–	–	0
Employee share option plan – proceeds of options exercised	2,001	–	–	–	–	–	2,001
Employee share purchase plan	256	–	–	–	–	–	256
Exercise of warrants	6,243	–	–	–	–	–	6,243
Stock-based compensation	–	–	1,698	–	–	–	1,698
Cancellation of shares	(211)	–	211	–	–	–	0
Other comprehensive loss	–	–	–	–	(8,753)	–	(8,753)
Net earnings	–	–	–	61,743	–	–	61,743
As at September 30, 2007	**176,428**	**8,561**	**1,656**	**207,244**	**(4,462)**	**0**	**389,427**

In the first nine months of 2007, the Company issued the following Common Shares: 2,611,256 following the exercise of employee share options; 131,717 pursuant to the Company's employee share purchase plan; and, 30,884,510 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 $81.0 million in mineral properties and fixed assets in the first nine months of 2007.

At Langlois, $21.5 million was spent consisting primarily of $19.6 million for development for Langlois (including $2.6 million of capitalized exploration), $11.3 million for underground development, preproduction and equipment for Grevet B and $7.1 million for equipment, buildings and mine infrastructure partially offset by $16.7 million of preproduction contribution from mining operations.

Myra Falls' capital expenditures of $18.9 million consisted primarily of $5.5 and $2.2 million for development at Lynx 5/6 and Price, $3.0 million of mobile equipment purchases, $2.6 million of deferred development, $1.9 million for ramp development, $1.8 million for a ventilation raise, $1.0 million for a new tailings disposal area and $0.9 million for building construction and mill equipment.

At Mochito, $16.0 million was spent as follows: $4.5 million for tailings facilities; $3.3 million for mobile equipment; $2.7 million for mine development; $1.9 million for building and services; $1.6 million for equipment; $1.3 million for deferred development; and, $0.6 million of capitalized exploration.

Toqui capital expenditures of $17.1 million consisted of $8.9 million for development (including $5.0 million for Concordia and Porvenir), $2.1 million for mine equipment, $1.5 million for capitalized exploration, $2.8 million for mill equipment and modifications and $1.8 million for service and infrastructure upgrades.

Corporate capital expenditures of $7.5 million were primarily related to earn-in payments made on the Coulon property.

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 SEPTEMBER 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	**21.7**	44.1	**0.6**	16.5	**2.3**	2.5	**7.1**	4.7
Mochito	**25.1**	29.5	**17.4**	20.7	**1.1**	1.3	**6.2**	2.8
Toqui	**15.8**	8.5	**8.5**	6.0	**0.5**	0.2	**7.1**	1.6
Langlois [3]	**3.0**	0.0	**0.6**	0.0	**0.6**	0.0	**(1.3)**	10.6
Other	**0.0**	0.6 [2]	**(0.3)**	0.3	**0.3**	0.3	**4.9**	1.3
Total	**65.6**	82.7	**26.8**	43.5	**4.8**	4.3	**24.0**	21.0

[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 NINE MONTHS ENDED SEPTEMBER 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	**69.1**	112.0	**13.4**	38.8	**6.7**	7.1	**18.9**	13.3
Mochito	**78.8**	68.7	**56.4**	43.9	**3.5**	4.3	**16.0**	7.5
Toqui	**50.7**	37.2	**29.5**	24.3	**3.2**	1.7	**17.1**	7.2
Langlois [3]	**3.0**	0.0	**0.6**	(0.1)	**0.7**	0.1	**21.5**	19.0
Other	**0.0**	(3.8) [2]	**(0.6)**	(4.7)	**0.6**	0.9	**7.5**	1.3
Total	**201.6**	214.1	**99.3**	102.2	**14.7**	14.1	**81.0**	48.3

[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

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

All Mines	Third Quarter		First Nine Months	
	2007	2006	**2007**	2006
Ore Milled (tonnes)	**569,923**	455,650	**1,709,639**	1,475,625
Zinc (%)	**6.3**	6.3	**5.9**	6.0
Concentrate Production (tonnes)				
Zinc	**61,740**	50,241	**175,686**	153,277
Copper	**6,737**	4,156	**23,788**	17,219
Lead	**3,259**	4,252	**11,943**	12,024
Gold	**1,386**	771	**4,196**	2,935
Metal in Concentrates				
Zinc (tonnes)	**32,111**	25,752	**90,244**	78,884
Copper (tonnes)	**1,423**	958	**5,259**	4,066
Lead (tonnes)	**2,108**	2,922	**7,904**	8,211
Silver (ounces)	**679,797**	674,161	**2,212,115**	2,023,048
Gold (ounces)	**11,510**	12,160	**43,423**	43,762

Aggregate production of zinc in concentrate in the third quarter of 2007 was 70.7 million pounds compared with 56.8 million pounds in 2006, 24.5% higher. The increase was due to production from Langlois partially offset by lower production at the other operations.

Zinc Production		**Third Quarter**			**First Nine Months**	
(million pounds of zinc contained in concentrate)	**2007**	2006	%	**2007**	2006	%
Myra Falls	**15.0**	17.6	(14.8%)	**50.0**	59.6	(16.1%)
Mochito	**16.6**	18.3	(9.3%)	**50.9**	61.9	(17.8%)
Toqui	**18.2**	20.9	(12.9%)	**51.6**	52.4	(1.5%)
Langlois [(a)]	**20.9**	–	–	**46.4**	–	–
Total zinc production	**70.7**	56.8	24.5%	**198.9**	173.9	14.4%

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

Production of copper in concentrate rose 47.6% in the third quarter of 2007 from the same period in 2006 due to production from Langlois, which was not in production during the third quarter of 2006.

Copper Production		**Third Quarter**			**First Nine Months**	
(million pounds of copper contained in concentrate)	**2007**	2006	%	**2007**	2006	%
Myra Falls	**2.1**	2.1	–	**9.5**	10.1	(5.9%)
Langlois [(a)]	**1.0**	–	–	**1.9**	–	–
Total copper production	**3.1**	2.1	47.6%	**11.4**	10.1	12.9%

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

Production of lead in concentrate fell 28.1% during the third quarter of 2007 due to fewer tonnes milled at Mochito with a lower lead grade.

Lead Production		**Third Quarter**			**First Nine Months**	
(million pounds of lead contained in concentrate)	**2007**	2006	%	**2007**	2006	%
Mochito	**4.6**	6.4	(28.1%)	**17.4**	18.0	(3.3%)
Total lead production	**4.6**	6.4	(28.1%)	**17.4**	18.0	(3.3%)

Silver in concentrate increased 0.8%, quarter over quarter due to higher silver production at Mochito and Toqui, related to higher grades more than offsetting lower mill throughput and production from Langlois, partially offset by lower silver grades at Myra Falls.

Silver Production		**Third Quarter**			**First Nine Months**	
(ounces of silver contained in concentrate)	**2007**	2006	%	**2007**	2006	%
Myra Falls	**162,387**	237,348	(31.6%)	**677,970**	685,074	(1.0%)
Mochito	**425,622**	421,510	1.0%	**1,333,837**	1,287,073	3.6%
Toqui	**42,912**	15,303	180.4%	**92,384**	50,901	81.5%
Langlois [(a)]	**48,876**	–	–	**107,924**	–	–
Total silver production	**679,797**	674,161	0.8%	**2,212,115**	2,023,048	9.3%

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

Gold in concentrate decreased 4.7% in the third quarter of 2007 from the same period in 2006 due to lower gold head grades at Myra Falls partially offset by higher head grades at Toqui.

Gold Production		**Third Quarter**			**First Nine Months**	
(ounces of gold contained in concentrate)	**2007**	2006	%	**2007**	2006	%
Myra Falls	**3,699**	5,231	(29.3%)	**15,190**	16,777	(9.5%)
Toqui	**7,811**	6,929	12.7%	**28,233**	26,985	4.6%
Total gold production	**11,510**	12,160	(5.3%)	**43,423**	43,762	(0.8%)

Myra Falls Production

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

	Third Quarter		First Nine Months	
	2007	2006	**2007**	2006
Ore Milled (tonnes)	**156,094**	151,838	**544,420**	548,255
Zinc *(%)*	**5.1**	6.0	**4.9**	5.7
Copper *(%)*	**1.0**	0.9	**1.1**	1.0
Silver *(g/t)*	**39**	61	**46**	50
Gold *(g/t)*	**1.1**	1.5	**1.3**	1.6
Concentrate Production				
Zinc *(tonnes)*	**12,881**	15,373	**43,379**	51,952
Zinc Recovery *(%)*	**86.0**	87.5	**85.7**	86.1
Zinc Grade *(%)*	**53.0**	52.0	**52.3**	52.1
Gold Recovery *(%)*	**27.6**	21.8	**22.5**	18.4
Gold Grade *(g/t)*	**4.0**	3.2	**3.8**	3.1
Copper *(tonnes)*	**4,422**	4,156	**19,356**	17,219
Copper Recovery *(%)*	**71.6**	67.6	**76.3**	73.4
Copper Grade *(%)*	**21.9**	23.0	**22.5**	23.6
Gold Recovery *(%)*	**36.3**	30.4	**41.5**	27.8
Gold Grade *(g/t)*	**14.8**	16.0	**15.7**	14.0
Gold *(tonnes)*	**–**	1.3	**0.4**	12.7
Recovery *(%)*	**–**	10.4	**3.2**	10.9
Grade *(g/t)*	**–**	10,629	**9,400**	9,534
Metal in Concentrates				
Zinc *(tonnes)*	**6,818**	7,992	**22,686**	27,057
Copper *(tonnes)*	**958**	958	**4,347**	4,066
Silver *(ounces)*	**162,387**	237,348	**677,970**	685,074
Gold *(ounces)*	**3,782**	5,231	**15,190**	16,777
Total cash costs per lb. payable zinc sold *(US$)*	**1.10**	0.67	**0.91**	0.61

Production of zinc in concentrate was 14.7% lower in the third quarter of 2007 compared with the same period in 2006 and 23.5% lower than the second quarter of 2007 due to fewer tonnes milled at lower zinc grades.

Myra Falls Outlook

The Surface Ramp broke through into the Lynx 15 level providing sufficient volumes of fresh air to the western extremities of the Battle Gap Mine to allow additional haulage equipment into the stoping areas and for development to the north and west. A new ventilation raise was driven from the Gopher zone up to the 18-155 drift to bring additional ventilation into the Gopher and Main zones which are expected to be the main mining areas for the next two to three years. Production in the third quarter of 2007 was lower than anticipated due to: the long delivery time of additional haulage trucks which will be put into production during the fourth quarter of 2007; damage to a drill jumbo caused by a blasting incident; and, delays in hoisting mined material due to longer tramming distances due to the plugging of the main ore pass. The mining of some of the higher grade open pit material, anticipated in the third quarter of 2007, was delayed due to pit wall instability which has been addressed and the copper zone from the open pit has now been mined with the zinc zone to be mined before year end. The geology department has reinterpreted the mineralization in the Lynx 5 area and mining will begin in the fourth quarter of 2007. Development of Price is ongoing with production expected in 2008.

The diamond drill program from 18 level towards the Marshall zone experienced difficulties associated with directional drilling and accordingly the program was abandoned. In September 2007, drill access was gained to the Lynx 15 level from where some of the original discovery holes for the Marshall zone were drilled. Drilling conditions on the Lynx 15 level appear to be favourable and the Company moved the rigs to this location to continue the program with results expected before the end of the year.

The definition drill program identified extensions of the Track, Bornite, and HW upper zinc zones and is expected to further extend these zones.

The construction of the new tailings facility is on schedule for completion in 2008.

Mochito Production

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

	Third Quarter		First Nine Months	
	2007	2006	**2007**	2006
Ore Milled *(tonnes)*	**150,031**	166,723	**456,434**	518,874
Zinc *(%)*	**5.7**	5.5	**5.7**	6.0
Lead *(%)*	**1.8**	2.1	**2.2**	2.0
Silver *(g/t)*	**101**	90	**105**	89
Concentrate Production				
Zinc *(tonnes)*	**14,274**	15,855	**44,549**	53,687
Recovery *(%)*	**89.7**	90.1	**89.3**	90.6
Grade *(%)*	**52.8**	52.2	**51.8**	52.3
Lead *(tonnes)*	**3,259**	4,252	**11,943**	12,024
Recovery *(%)*	**79.6**	81.7	**79.0**	81.0
Grade *(%)*	**64.7**	68.7	**66.2**	68.3
Metal in Concentrates				
Zinc *(tonnes)*	**7,551**	8,282	**23,094**	28,068
Lead *(tonnes)*	**2,108**	2,922	**7,904**	8,211
Silver *(ounces)*	**425,622**	421,510	**1,333,837**	1,287,073
Total cash costs per lb. payable zinc sold *(US$)*	**(0.38)**	0.44	**(0.24)**	0.33

As planned, milled tonnage declined during the third quarter of 2007 compared with 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 third quarter of 2007 compared with the same period in 2006 due to fewer tonnes milled partially offset by higher grades while production of lead in concentrate was lower due to fewer tonnes milled and lower lead grades.

Mochito Outlook

On October 18, 2007, Breakwater announced that it had discovered a discharge of water from the newly commissioned Soledad tailings impoundment area which necessitated a suspension of milling at Mochito. A preliminary evaluation of the situation has determined that recommissioning the Pozo Azul tailings impoundment area, for which permitting remains in place, will be the quickest method of returning Mochito to full production.

The Company is conducting a test in the mill to determine the optimum reagent mix required to control the levels of copper in the effluent of Pozo Azul. If the reagent test is successful, as determined by the production of saleable concentrates, then the mill will be able to run at full capacity while the ultimate capacity of Pozo Azul is being increased. If the test is not successful, then Mochito will only be able to mill intermittently, dependent on water levels in Pozo Azul. Accordingly, the Company is unable to provide production guidance. Enlargement of the Pozo Azul tailings impoundment area is expected to provide up to 24 months of storage. The Company is currently unable to estimate the construction time to enlarge Pozo Azul, as it is largely weather dependent.

At Soledad, the water level was lowered and the discharge of water has stopped. Based on monitoring conducted to date, there are no indications of any adverse impacts on receiving waters including Lake Yojoa. Plans are still being formulated to determine the nature of the repairs required for Soledad.

Earlier this year, a bank of flotation cells was added to the lead circuit for use when lead grades exceed 2.0%. Once milling has returned to normal, these flotation cells will be used exclusively while the existing cells undergo maintenance.

The collective bargaining agreement at Mochito was renewed for three years.

The Company continued drilling to identify new mineral resources in several areas of the mine. Manto mineralization extending northeast of the Santo Niño area was identified in the third quarter of 2007 and drilling in this area, including the Santo Niño Chimney, will be carried out during the remainder of the year.

A drill program to test the area east of Mochito, called the Deep East, began in the third quarter of 2007. Drilling has encountered both manto and chimney-style mineralization extending east from the Santo Niño area and this campaign is expected to continue through the remainder of 2007.

Exploration drilling continues to confirm the existence of manto-style mineralization of economic interest connecting areas between the Salva Vida, San Jose and Yojoa orebodies. Drilling planned for the fourth quarter of 2007 will focus on defining the extent of mineralized manto northward toward the Salva Vida and San Jose areas.

Drilling began in the third quarter of 2007 in the Nacional SW area with the objective of upgrading inferred resources to indicated resources. This drilling is expected to establish the continuity of manto-style mineralization between the La Leona and Nacional areas of the mine.

During the fourth quarter of 2007, exploration drilling is planned to test the southern extension of manto-style mineralization in the Nacional area. This area, known as Manto Sur, was discovered during previous exploration and its economic viability is being re-examined. Drilling from Manto Sur will test extensions of mineralization toward the southwest in the El Raton area.

Exploration continues to test the Big Fuzzy target. Step-out drilling is focusing to the west of a hole that encountered lead/zinc manto-style mineralization. More drilling is planned in the fourth quarter of 2007 and a grid of soil geochemical samples will be extended to the east and north of the initial hole.

Toqui Production

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

	Third Quarter		First Nine Months	
	2007	2006	**2007**	2006
Ore Milled *(tonnes)*	**131,123**	137,089	**389,593**	408,496
Zinc *(%)*	**7.1**	7.6	**6.7**	6.4
Gold *(g/t)*	**2.3**	1.8	**2.8**	2.3
Concentrate Production				
Zinc (tonnes)	**16,711**	19,013	**47,509**	47,638
Recovery *(%)*	**90.0**	91.0	**90.0**	90.7
Grade *(%)*	**49.5**	49.9	**49.4**	49.9
Gold (tonnes)	**1,386**	770	**4,196**	2,922
Recovery *(%)*	**47.6**	71.4	**55.5**	69.5
Grade *(g/t)*	**117.1**	198.1	**136.2**	206.3
Metal in Concentrates				
Zinc *(tonnes)*	**8,278**	9,478	**23,469**	23,759
Silver *(ounces)*	**42,912**	15,303	**92,384**	50,901
Gold *(ounces)*	**7,811**	6,929	**28,233**	26,985
Total cash costs per lb. payable zinc sold *(US$)*	**0.76**	0.71	**0.77**	0.59

Fewer tonnes were milled during the third quarter of 2007 than the same period in 2006 due to a planned shutdown of ball mill # 2, and abnormally severe winter conditions which caused pipeline freezeups which hampered mill operations in September 2007. The newly installed Gekko plant, which treats Toqui gold/silver concentrate in a three stage process involving intensive leaching in a rotary intense leach reactor; electrowinning the metal to cathode; and smelting the cathode to doré for sale to the market, produced its first doré in April 2007. Efforts are focussed on optimizing gold and silver production. A gold recovery consulting firm has been retained to assist in these efforts.

Production of zinc in concentrate dropped during the third quarter of 2007 compared with the same period in 2006 due to milling fewer tonnes and lower grades, while the Company produced more gold due to higher grades and better recovery in the gold and lead concentrates. Zinc and lead grades are expected to increase as more Concordia material is mined in the last quarter of 2007.

Production commenced in Concordia North and decline development is proceeding towards Concordia South. The Concordia deposits will be an integral part of production in 2008.

Underground programs, of about $5.0 million for capital development and $4.0 million for underground mobile equipment replacements, are both on schedule. The new mine offices are complete and construction of a new surface mine shop, a new geological office and a new supervisors' accommodation is underway. Installation, training, and implementation of a new enterprise resource planning software was completed. Projects relating to tailings pastefill for underground and the new tailings impoundment facility were advanced and other projects are in progress in an effort to ensure that the appropriate infrastructure is in place to allow efficient construction of a new mill, should the prefeasibility study be positive.

The Company has selected a mining contractor to develop Porvenir. Excavation work has commenced. The Company expects to take 16 months to develop Porvenir with production expected in early 2009.

Toqui Outlook

The collective bargaining agreement at Toqui was renewed for three years effective October 1, 2007. Management's goal was to secure a three-year agreement to ensure that there is labour harmony during any construction period related to the possible construction of a new mill at El Toqui.

The new lead flotation circuit expansion is expected to be operational in the fourth quarter of 2007 which is expected to improve lead concentrate production.

Engineering studies and plans have started for the construction of a paste backfill plant as well as the basic study of a new tailings impoundment area, based on paste tails deposition.

A $10 million exploration budget for 2007 includes drilling as a major component to test some high-priority regional targets outside of the defined deposits within a defined NW-SE anomalous trend. Drilling results continue to support the recent decision to commence a pre-feasibility study for a 1.0 million tonne per annum mill. Toqui is constrained by the capacity of its mill which runs at 1,475 tonnes per day or approximately 540,000 tonnes per annum.

To the end of the third quarter of 2007, Toqui had completed about 42.6 kilometres of drilling in more than 140 holes which resulted in the discovery of new mineralized zones aligned along the known NW-SE trend that crosses through the Toqui district as well as confirming the shape and continuity of Porvenir and Concordia.

During the third quarter of 2007, five diamond drills carried out approximately 16.3 kilometres of in-fill, extensional and exploration drilling at Toqui. Sixty-four holes were drilled on the Porvenir deposit, due south of Aserradero, and on the south block of Concordia, located north-west of Estatuas. Exploration drilling also tested new areas east and south-east of Concordia, south-east of Porvenir, south-south-west of Porvenir and, at Cerro Elefante on the north-west of the Toqui property.

At Porvenir, the Company proved mineralization is continuous along a NW-SE trend and down dip. The strength of the mineralization in this area indicates there is potential for a significant Zn/Au deposit located parallel to the Aserradero gold skarn deposit. A new drill program is currently underway 250 metres south-west of Porvenir, within the area known as Los Boldos. Recently, the Company compiled information that deals with the potential of this area. Based on older information, soil geochem anomalies, and basic alteration zonation patterns, there is potential for a repeat of the Porvenir-type mineralized system in this area.

The latest drill results from Porvenir southeast indicate the potential for a larger extended NW-SE mineralized system. The southeast extension of Porvenir has been outlined as one of the most promising untested areas in the district. It comprises a mineralized main manto of about 10 to 14 metres thick, containing higher gold grades and lower zinc grades, similar to the Aserradero deposit.

Exploration drilling has shown encouraging results in other areas of the district, including an area located 300 metres east of the Concordia deposit. Additional exploration drilling is following up the mineralization in order to connect Concordia with the area known as Cerro Elefante/Mallines.

Exploration diamond drilling is now under way on a 2.5 kilometre by 1.0 kilometre area that connects the Concordia deposit with the north and north-west sectors of the formerly producing parts of the Doña Rosa mine. This area, known as the Catedral Project, is targeted for 15.0 kilometres of drilling over the next few months.

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 319,192 tonnes milled during the first nine months of 2007.

The quality of the concentrate increased steadily throughout the third 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 third quarter of 2007, a ramp was started from level 9 to access Zone 97 between level 9 and level 4 as well as a decline to access Zone 97 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 third quarter of 2007 also included the processing of material from the Grevet B deposit, located three kilometres south-east of Langlois. The Certificate of Authorization was received from the Ministère du Développement durable, de l'Environnement et des Parcs for the Grevet B mine earlier this year 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, one for exploration of Zone 5, two focused on the lower portion of Zone 97, one focused on the Contact Zone, east of Grevet B and west of Orphée, and one on Grevet B.

The following table sets forth Langlois' production for the 2007 periods presented.

	Third Quarter	First Nine Months
Ore Milled (tonnes)	**132,675**	**319,192**
Zinc *(%)*	**7.8**	**7.3**
Copper *(%)*	**0.5**	**0.4**
Silver *(g/t)*	**28**	**29**
Concentrate Production		
Zinc *(tonnes)*	**17,874**	**40,249**
Recovery *(%)*	**91.4**	**90.5**
Grade *(%)*	**53.2**	**52.2**
Copper *(tonnes)*	**2,315**	**4,432**
Recovery *(%)*	**73.7**	**69.6**
Grade *(%)*	**20.1**	**20.6**
Metal in Concentrates		
Zinc *(tonnes)*	**9,464**	**20,995**
Copper *(tonnes)*	**465**	**912**
Silver *(ounces)*	**48,876**	**107,924**
Total cash costs per lb. payable zinc sold *(US$)*	**0.72**	**n/a**

Langlois Outlook

A 50.4 kilometre drill program is 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 two kilometres along the strike of the Langlois deposit to a depth of 800 metres below surface. One objective of this program is to upgrade 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. To September 30, 2007, 44.1 kilometres have been completed.

During the third quarter of 2007, 16.2 kilometres of drilling were completed with five drills. Zones 1, 3, 4, 5 and 97 near surface and underground extensions were drilled from both surface and underground.

At Zone 3, economic mineralization appears to extend to surface and consequently a new resource estimate from surface to 130 metres below surface was prepared as reported on September 18, 2007. A subsequent infill drilling program has been carried out in order to upgrade some inferred resources into the indicated category. Holes were drilled between levels 6 and 8 to decrease the spacing between holes and results to date confirm that the mineralization in this area of Zone 3 is economic.

Zone 4 was also drilled from underground to delineate its western extension between levels 3 and 5. Economic mineralization was encountered extending the current resource limit of the zone at least 200 metres along strike and 50 metres vertically. Drilling continues and this sector will be included in the next resource estimation.

Drilling on Zone 5 has successfully outlined a westerly dipping volcanogenic massive sulphide (“VMS”) lens. The Company will conduct a second phase of drilling in the fourth quarter of 2007 to build geological confidence and to bring Zone 5 to a resource evaluation basis which will lead to a pre-feasibility study by the end of the year. A request for a bulk sampling permit for Zone 5 was filed in the third quarter of 2007. Mining and milling this bulk sample should provide Langlois 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 fourth quarter of 2008.

Zone 97 was tested from level 13 underground and the area, located about 200 metres west of the known Zone 97, continues to show economic mineralization. During the third quarter of 2007, 3.8 kilometres were drilled from level 11 to below level 13 and the mineralization is still open at depth and to the east.

Fifteen in-fill holes were completed during the quarter at Grevet B for a total of 1.2 kilometres of drilling. The main purpose of the program was to determine the economic limits of the bottom portion of lens 100 and the top portion of lens 200. The Company will use the results from this program to refine the design of stopes in this area and to guide the development on level 74.

During 2007, reinterpretation and re-modeling of all of the zones was carried out taking into account 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 the third quarter, all interpretation was completed and work was started on a fully integrated 3D block model. By the end of 2007, this work should be complete. It is expected that a fully integrated 3D block model will greatly assist all mine applications, especially the estimation of new resources and reserves.

During the fourth quarter of 2007, underground drilling is expected to test the west extension of Zone 4 between levels 3 and 6. As well, drilling is expected to test the newly identified Zone 97 west extension. This drilling will be carried out from level 13 as development headings allow. Zone 3 west extensions between level 6 and 8 will also be tested before year end, again, as development allows. Additional drilling will be required in this area in order to upgrade the inferred resources to the reserve category. Zone 97 surface and east extensions will be drilled from surface to confirm a satellite zone in close proximity to surface.

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 nine kilometres from the Langlois mill, could provide additional mill feed for Langlois, which currently has excess mill capacity. The Company conducted a delineation drilling program over the western part of the Orphée deposit, for which it owns 100% of the mining rights, in order to enhance the prefeasibility study. A phase II delineation program will be conducted over the western part of the Orphée deposit during the fourth quarter of 2007.

Coulon Project

During the third 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 and amended in September 2007, the Company has the option to acquire a 50% interest in the Coulon property in return for $7.5 million in exploration expenditures and payments totalling $180,000 over an eight-year period. The September 2007 amendment not only increased the exploration spend by $1.0 million but it expanded the land package to include Virginia's Fontanges Sud and Coulon Pitaval properties as well as 1,981 new claims covering all the prospective stratigraphy of the Coulon Volcanic Belt ("CVB"). The Coulon property now consists of 3,250 claims covering more than 90 kilometres of the CVB. A third deep drilling rig was mobilized during the third quarter of 2007 to accelerate exploration work. In the fourth quarter of 2007, two deep rigs will focus on delineating additional resources within lenses 43, 44 and 9-25 and a heliborne survey will explore for new drill targets on a regional scale. The Company fulfilled its earn-in commitments in mid-October 2007.

Drill results released by Virginia during the third quarter of 2007 indicated continuity of the Coulon mineralized system over more than 20 kilometres along strike with the discovery of a new showing. The Spirit showing consists of semi-massive to massive sulphide mineralization rich in chalcopyrite and sphalerite, with slighter quantities of galena, hosted by sillimanite gneisses representing metamorphosed felsic volcanics. The electromagnetic conductor can be traced over a lateral distance of 80 metres, in a general north-south direction, and in a thickness of 4 to 7 metres. This conductor remains open laterally since it disappears at both ends under a thick overburden which is greater than the investigation depth of the electromagnetic survey. Three unexplained, airborne EM conductors lie in the vicinity of the Spirit showing. Lens 43 is now confirmed over a lateral distance of 340 metres and a vertical depth of 380 metres and it is still open at depth. Lens 44 and 9-25 have been intercepted at depths to 380 and 550 metres respectively and both are also open at depth.

Trieste Project

On September 14, 2007, the Company signed an 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 of 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.

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 third 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

	Third Quarter		First Nine Months	
	2007	2006	**2007**	2006
By-product credit *($ millions)*				
Gross sales revenue per financial statements	**(87.5)**	(112.0)	**(268.9)**	(293.8)
Less zinc sales revenue	**56.0**	76.5	**173.3**	203.2
	(31.5)	(35.5)	**(95.6)**	(90.6)
Treatments and marketing charges *($ millions)* per financial statements	**22.0**	29.4	**67.3**	79.8
Direct operating costs *($ millions)* per financial statements	**33.9**	34.9	**87.7**	97.8
Total cash costs – C$ *(millions)*	**24.4**	28.8	**59.4**	87.0
C$/US$ exchange rate	**1.0644**	1.1230	**1.1118**	1.1390
Total cash costs – US$ *(millions)*	**23.0**	25.6	**53.4**	76.4
Zinc pounds sold *(millions)*	**37.2**	44.7	**101.3**	143.9
Total cash cost per pound of payable zinc sold *(US$)*				
By-product credit	**(0.79)**	(0.70)	**(0.85)**	(0.56)
Treatment and marketing costs	**0.56**	0.58	**0.60**	0.49
Direct operating costs	**0.85**	0.69	**0.78**	0.60
Total	**0.62**	0.57	**0.53**	0.53

SUMMARY OF QUARTERLY RESULTS

	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1	2007 Q2	**2007 Q3**
Gross sales revenue *($ millions)*	57.4	80.7	101.2	112.0	158.3	77.9	103.4	**87.5**
Net earning (loss) *($ millions)*	9.3	38.3	28.6	39.2	50.4	15.3	38.7	**7.8**
Basic earnings per share	$0.02	$0.10	$0.08	$0.10	$0.13	$0.04	$0.09	**$0.02**
Weighted-average number of Common Shares outstanding *(millions)*	374.2	382.0	383.8	384.3	385.0	396.4	418.0	**418.7**
Diluted earnings per share	$0.02	$0.09	$0.07	$0.09	$0.12	$0.04	$0.09	**$0.02**
C$/US$ realized exchange rate	1.1744	1.1559	1.1239	1.1187	1.1422	1.1683	1.0914	**1.0374**
Average realized zinc price *(US$/t)*	1,502	2,221	2,895	3,363	4,227	3,434	3,710	**3,200**
Average realized zinc price *(C$/t)*	1,764	2,567	3,226	3,762	4,828	4,012	4,049	**3,320**
Concentrate tonnes sold [(a)]	60,391	67,355	59,779	61,385	73,230	39,333	51,553	**50,748**
Concentrate tonnes produced [(b)]	68,841	66,129	59,906	59,420	67,058	66,895	75,596	**73,122**

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

[(b)] 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 nine 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 third 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 third quarter 2007 financial statements of the Company.

Common Shares or Securities Convertible into Common Shares	**October 30, 2007**
Issued and outstanding	419,559,000
Share options outstanding weighted-average exercise price $1.35	8,041,143
Warrants granted at $1.00, expire January 28, 2009 – traded on TSX	33,488,329
Future fully diluted	**461,088,472**

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 Annual Information Form filed with the Canadian securities regulators, a copy of which is posted on the SEDAR website at www.sedar.com.

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 third 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 September 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 nine months ended September 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 third 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

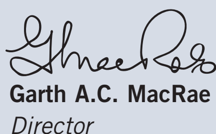
(Expressed in thousands of Canadian dollars)
(Unaudited)

	September 30, 2007	December 31, 2006
Assets		
Current		
Cash and cash equivalents	80,882	81,412
Restricted cash *(note 3)*	629	1,221
Short-term investments *(note 4)*	8,274	4,120
Accounts receivable – concentrate	4,065	12,687
Other receivables	15,673	12,676
Concentrate inventory *(note 5)*	76,822	43,686
Materials and supplies inventory	27,239	22,904
Prepaid expenses and other current assets	10,089	4,029
Future income tax assets *(note 12)*	16,762	14,745
Total current assets	240,435	197,480
Future income tax assets, long-term *(note 12)*	14,110	13,440
Reclamation deposits *(note 6)*	13,500	13,500
Mineral properties and fixed assets	260,625	207,884
Long-term investments *(note 7)*	41,928	14,704
Restricted promissory notes	62,285	62,285
	632,883	509,293
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	59,999	43,128
Provisional payments for concentrate inventory shipped and not priced	54,505	24,246
Short-term debt including current portion of long-term debt *(note 8)*	190	2,169
Income and mining taxes payable	11,696	9,798
Current portion of reclamation, closure cost accruals and other environmental obligations *(note 10)*	7,082	8,267
Total current liabilities	133,472	87,608
Deferred income	5,819	6,277
Long-term lease obligations	305	501
Royalty obligations	62,479	62,479
Long-term debt *(note 9)*	1,851	–
Reclamation, closure cost accruals and other environmental obligations *(note 10)*	30,164	32,293
Employee future benefits *(note 11)*	3,304	4,493
Future income tax liabilities *(note 12)*	6,062	7,089
Total liabilities	243,456	200,740
Shareholders' equity *(note 13)*	389,427	308,553
	632,883	509,293

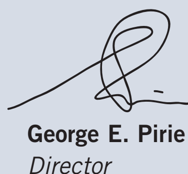
Contingencies and commitments *(note 15)*.

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)

For the periods ended September 30	Three Months Ended 2007	Three Months Ended 2006	Nine Months Ended 2007	Nine Months Ended 2006
		(restated – see note 2)		*(restated – see note 2)*
Gross sales revenue	**87,532**	112,037	**268,880**	293,897
Treatment and marketing costs	**22,036**	29,380	**67,267**	79,769
Net revenue	**65,496**	82,657	**201,613**	214,128
Operating costs				
Direct operating costs	**33,895**	34,894	**87,675**	97,885
Depreciation and depletion	**3,802**	3,384	**11,946**	11,319
Reclamation and closure costs	**1,002**	866	**2,724**	2,751
	38,699	39,144	**102,345**	111,955
Contribution from mining activities	**26,797**	43,513	**99,268**	102,173
Other expenses (income)				
General and administrative	**4,013**	3,203	**11,407**	10,419
Interest and financing	**975**	1,071	**3,108**	4,009
Investment and other income	**(4,919)**	(1,933)	**(11,561)**	(5,236)
Other	**3,336**	(197)	**9,965**	403
	3,405	2,144	**12,919**	9,595
Earnings before the following:	**23,392**	41,369	**86,349**	92,578
Exploration expenses *(note 2(b))*	**5,284**	2,584	**10,875**	7,075
Other non-producing property costs	**546**	(12,867)	**1,452**	(10,200)
Income and mining tax provision (recovery) *(note 12)*	**9,788**	12,468	**12,279**	(10,407)
	15,618	2,185	**24,606**	(13,532)
Net earnings	**7,774**	39,184	**61,743**	106,110
Retained earnings (deficit), beginning of period	**199,470**	50,191	**139,795**	(189,663)
Changes in accounting policy *(note 2)*	**–**	–	**5,706**	–
Reduction of stated share capital and contributed surplus	**–**	–	**–**	172,928
Retained earnings, end of period	**207,244**	89,375	**207,244**	89,375
Basic earnings per Common Share *(note 18)*	**0.02**	0.10	**0.15**	0.28
Diluted earnings per Common Share *(note 18)*	**0.02**	0.09	**0.14**	0.25
Basic weighted-average number of Common Shares outstanding *(000's)* *(note 18)*	**418,693**	384,335	**411,038**	383,323

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 nine month period ended September 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	**(8,753)**
Accumulated other comprehensive loss, end of period *(note 13)*	**(4,462)**

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 September 30	**Three Months Ended 2007**	**Nine Months Ended 2007**
Net earnings	**7,774**	**61,743**
Other comprehensive income (loss), net of income taxes:		
Unrealized losses on translating financial statements of self sustaining foreign operations	**(4,636)**	**(9,573)**
Unrealized loss on short-term available-for-sale securities, net of income tax provision of $63,000 (3 months - $22,000) *(note 4)*	**(112)**	**(322)**
Unrealized gain on long-term available-for-sale securities, net of income tax provision of $226,000 (3 months - $139,000) *(note 7)*	**698**	**1,142**
Other comprehensive loss, net of income taxes	**(4,050)**	**(8,753)**
Comprehensive income	**3,724**	**52,990**

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		Nine Months Ended	
For the periods ended September 30	**2007**	2006	**2007**	2006
		(restated – see note 2)		*(restated – see note 2)*
Operating Activities				
Net earnings	**7,774**	39,184	**61,743**	106,110
Items not affecting cash:				
Depreciation and depletion	**3,802**	3,384	**11,946**	11,319
Gain on sale of investment	**–**	–	**(306)**	–
Gain on sale of property	**–**	(13,818)	**–**	(13,818)
Unrealized gain on investments	**(3,098)**	(276)	**(8,333)**	–
Other non-cash items	**319**	(713)	**116**	(475)
Stock-based compensation *(note 13)*	**617**	182	**1,698**	1,201
Issue of Common Shares to settle litigation	**–**	–	**–**	848
Unrealized deferred income	**(152)**	(152)	**(458)**	(458)
Future income taxes *(note 12)*	**2,957**	9,720	**(3,832)**	(14,966)
Reclamation, closure cost accruals and other environmental obligations	**1,002**	866	**2,724**	2,751
Employee future benefits *(note 11)*	**372**	636	**1,138**	1,523
	5,819	(171)	**4,693**	(12,075)
Payment of reclamation, closure cost accruals and other environmental obligations	**(2,701)**	(2,137)	**(5,078)**	(5,858)
Payment of employee future benefits	**(815)**	(764)	**(2,327)**	(2,254)
Changes in non-cash working capital items *(note 17)*	**(3,158)**	4,173	**17,443**	24,131
Net cash provided by operating activities	**6,919**	40,285	**76,474**	110,054
Investing Activities				
Reclamation deposits	**–**	5,952	**–**	(6,727)
Short-term investments	**(6,088)**	(2,341)	**(5,055)**	(36)
Mineral properties and fixed assets	**(23,980)**	(20,961)	**(81,016)**	(48,329)
Proceeds from sale of fixed assets	**–**	86	**290**	294
Net cash used in investing activities	**(30,068)**	(17,264)	**(85,781)**	(54,798)
Financing Activities				
Decrease in restricted cash *(note 3)*	**425**	2,474	**592**	2,251
Issue of Common Shares for cash *(note 13)*	**725**	75	**8,502**	1,065
Deferred financing fees	**–**	–	**–**	(223)
Decrease in long-term lease obligations	**(53)**	–	**(196)**	(248)
Increase (decrease) in short-term debt	**4**	(2,492)	**(121)**	(13,417)
Net cash provided by (used in) financing activities	**1,101**	57	**8,777**	(10,572)
Net (decrease) increase in cash during the period	**(22,048)**	23,078	**(530)**	44,684
Cash and cash equivalents, beginning of period	**102,930**	40,355	**81,412**	18,749
Cash and cash equivalents, end of period	**80,882**	63,433	**80,882**	63,433
Supplemental Information				
Cash interest paid	**26**	47	**261**	630
Cash income and mining taxes paid	**6,052**	82	**18,344**	425

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

Notes to the Consolidated Financial Statements

For the periods ended September 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 nine months ended September 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 September 30, 2006:

($000's except per share amounts)	**Three Months Ended September 30, 2006**	**Nine Months Ended September 30, 2006**
Depreciation and depletion	(370)	(970)
Exploration expenses	1,933	3,929
Net earnings	(1,563)	(2,959)
Deficit, beginning of period	(18,131)	(16,735)
Retained earnings, end of period	(19,694)	(19,694)
Basic earnings per Common Share	$(0.00)	$(0.00)
Diluted earnings per Common Share	$(0.00)	$(0.00)
Mineral properties and fixed assets	(1,550)	(16,917)
Cumulative translation adjustments	13	2,777

3. Restricted Cash

The restricted cash balance at September 30, 2007, of $629,000 (December 31, 2006 - $1,221,000), includes $379,000 (December 31, 2006 - $971,000) placed on deposit to cover certain reclamation costs and $250,000 (December 31, 2006 - $250,000) to guarantee an operating lease

4. Short-term Investments

($000's)	**September 30, 2007**	December 31, 2006
Marketable securities:		
Available-for-sale (quoted market value: December 31, 2006 - $1,226)	**842**	218
Held-for-trading (quoted market value: December 31, 2006 - $4,275)	**7,432**	3,902
	8,274	4,120

Marketable securities at September 30, 2007 are carried at fair value with the net unrealized loss on available-for-sale securities for the three and nine months ended September 30, 2007 of $112,000 and $322,000 respectively recorded in OCI until realized and the unrealized losses of $2,037,000 and of $1,897,000 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 September 30, 2007 includes an amount of $41,810,000 (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 September 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 Myra Falls.

7. Long-term Investments

Long-term investments are classified as available-for-sale securities and are carried at fair value at September 30, 2007. At December 31, 2006, long-term investments were valued at cost, net of other than temporary impairments in value. At September 30, 2007, the Company recorded for the three and nine months ended September 30, 2007 unrealized gains on the long-term investments of $5,268,000 and $6,950,000 respectively which included unrealized gains of $4,431,000 and $5,582,000 respectively for the valuation of the conversion rights which are considered embedded derivatives and recorded through earnings and unrealized gains of $837,000 and $1,368,000 respectively for the increase in fair value of the debentures which are recorded in OCI, net of income tax of $139,000 and $226,000 respectively. 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)	**September 30, 2007**	December 31, 2006
Blue Note Metals Inc. unsecured convertible debenture	**24,595**	9,089
Taseko Mines Limited unsecured convertible debenture		
(fair market value: December 31, 2006 - $10,569)	**17,333**	5,615
	41,928	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)	**September 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)	September 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)	September 30, 2007	December 31, 2006
Asset retirement obligations	**32,570**	33,015
Closure cost accruals	**1,648**	2,059
Other environmental obligations	**3,028**	5,486
	37,246	40,560
Less current portion	**7,082**	8,267
	30,164	32,293

Other environmental obligations represent expenditures required to complete modifications to the tailings facility at Myra Falls. The Company expects to complete the required work by 2008. The estimated obligation was recorded and is being reduced by actual expenditures incurred. As at September 30, 2007, the expenditures since acquisition have been $11,836,000 (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)	1,270
Expenditures	(1,175)
Impact of foreign exchange	(406)
As at June 30, 2007	**32,710**
Accretion (included in reclamation and closure costs)	673
Expenditures	(538)
Impact of foreign exchange	(275)
As at September 30, 2007	**32,570**
Less: current portion included in Current portion of reclamation, closure cost accruals and other environmental obligations	4,585
	27,985

The estimated amount of undiscounted cash flow required to satisfy the asset retirement obligations as at September 30, 2007, was $98,130,000 (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 September 30, 2007, includes an amount of $66,329,000 (December 31, 2006 - $66,329,000) which is for water treatment at Myra Falls in perpetuity.

11. Employee Future Benefits

The defined benefit pension plan cost for the three and nine months ended September 30, 2007 were $372,000 (2006 - $636,000) and $1,138,000 (2006 - $1,523,000), respectively.

12. Income and Mining Taxes

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

($000's)	**September 30, 2007**	December 31, 2006
Future tax assets		
Loss carry forwards	**38,902**	26,540
Mineral properties and fixed assets	**226,733**	213,237
Reclamation and closure cost accruals	**9,862**	12,721
Deferred income	**2,057**	2,104
Future tax assets before valuation allowance	**277,554**	254,602
Valuation allowance	**246,682**	226,417
Future tax assets	**30,872**	28,185
Future tax liabilities		
Mineral properties – mining tax	**(6,062)**	(7,089)
Net future tax assets	**24,810**	21,096

	Three Months Ended September 30		*Nine Months Ended September 30*	
($000's)	**2007**	2006	**2007**	2006
Income and mining tax provision (recovery)				
Current income and mining tax provision (recovery)	**6,948**	2,747	**20,242**	2,379
Future income and mining tax provision (recovery)	**2,840**	9,721	**(7,963)**	(12,786)
	9,788	12,468	**12,279**	(10,407)

13. Shareholders' Equity

Shareholders' equity consists of the following:

($000's)	September 30, 2007	December 31, 2006
		(restated – see note 2)
Capital stock	**176,428**	167,093
Warrants	**8,561**	8,561
Contributed surplus	**1,656**	793
Retained earnings *(note 2(a))*	**207,244**	139,795
Accumulated other comprehensive income *(note 2(a))*	**(4,462)**	(7,689)
	389,427	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 September 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
Exercise of warrants (b)	32	32
Cancellation of shares (c)	(121)	(211)
Employee share option plan – proceeds of options exercised (d)	1,824	1,428
Value ascribed to options exercised under stock-based compensation (d)	–	703
Employee share purchase plan	90	157
As at June 30, 2007	**418,273**	**175,362**
Exercise of warrants (b)	51	51
Employee share option plan – proceeds of options exercised (d)	788	574
Value ascribed to options exercised under stock-based compensation (d)	–	341
Employee share purchase plan	41	100
As at September 30, 2007	**419,153**	**176,428**

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 September 30, 2007, none of these warrants were outstanding (December 31, 2006 - 30,801,410).

b) On January 28, 2004, the Company completed the sale of 57,142,858 units to a syndicate of underwriters at a purchase price of $0.70 per unit, for net proceeds of $37,027,000, net of costs of issue of approximately $2,973,000. Each unit consisted of one Common Share and one-half of one Common Share purchase warrant. Each whole warrant entitles the holder to acquire one Common Share at a price of $1.00 at any time until January 28, 2009. The fair value of the warrants of $7,211,000, net of costs of issue, is included in shareholders' equity on the consolidated balance sheets as "Warrants".

   On July 23, 2004, the Company acquired Myra Falls for consideration which included 5,000,000 warrants exercisable at $1.00 per Common Share with an expiry date of January 28, 2009. The fair value ascribed to the warrants of $1,350,000 is included in shareholders' equity on the consolidated balance sheets.

   The above warrants are listed on the TSX and as at September 30, 2007 entitled warrants holders to acquire 33,488,329 (December 31, 2006 – 33,571,429) Common Shares of the Company.

c) 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.

d) Share option transactions were as follows:

	Options *(000's)*	Weighted-average exercise price
As at December 31, 2006	9,535	$1.00
Granted	1,340	2.37
Exercised	(1,824)	0.79
Forfeited	(216)	1.60
Expired	(200)	3.43
As at June 30, 2007	8,635	$1.18
Granted	700	2.70
Exercised	(788)	0.73
Forfeited	(38)	1.98
As at September 30, 2007	8,509	$1.35

As at September 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	2,412	3 years 285 days	$0.31	2,381	$0.30
$0.51 - $1.50	3,096	2 years 276 days	$0.96	2,571	$0.92
$1.51 - $3.00	2,631	4 years 148 days	$2.29	943	$2.32
$3.01 - $8.20	370	1 year 144 days	$4.67	370	$4.67
	8,509			**6,265**	

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 September 30, 2007 of $1,698,000 (2006 - $1,201,000) less the initial fair value of options exercised of $1,046,000 (2006 - $400,000), for a net amount of $652,000 (2006 - $801,000) 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 September 30		Nine Months Ended September 30	
	2007	2006	**2007**	2006
Weighted-average exercise price per Common Share	**$2.70**	$Nil	**$2.48**	$1.14
Weighted-average quoted market price per Common Share at date of grant	**$2.70**	$Nil	**$2.48**	$1.14
Weighted-average grant-date fair value price per Common Share	**$1.30**	$Nil	**1.28**	$0.69
Expected life (years)	**3.4**	–	**4.0**	5.0
Risk free interest rate	**4.35%**	–	**4.30%**	4.40%
Expected volatility	**63%**	–	**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 nine month period ended September 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

In August, 2007, the Company and CanZinco Ltd. ("CanZinco"), a wholly owned subsidiary of the Company, were added as defendants by counterclaim in a New Brunswick Court of Queen's Bench action by Merlin Group Securities Ltd., as Trustee of the Fern Trust (the "Fern Trust"). The Plaintiff and defendant by counterclaim in the action is Blue Note Mining Inc. ("Blue Note") which acquired the Caribou mine in New Brunswick from CanZinco in August 2006 *(see note 7).* At issue in the action is a 10% net profit interest ("NPI") in the Caribou mine claimed by the Fern Trust. The claim against the Company and CanZinco, made in addition to the claim against Blue Note in the alternative, is for: (a) a declaration that CanZinco and the Company are liable to the Fern Trust for its interest in the NPI; (b) damages in the amount of $40 million, or an amount calculated in accordance with the NPI based upon current market prices, whichever is greater, for breach of duties and obligations to the Fern Trust pursuant to the NPI, and; (c) prejudgment interest and costs of the action. On October 12, 2007, the Company and CanZinco served and filed statements of defence denying any liability whatsoever. The Company believes that this action is without merit and in any event expects to be indemnified by Blue Note under agreements entered into in connection with the Caribou mine sale transaction. The Company therefore anticipates that this claim is not likely to have a material effect on the Company's financial position.

The above note should be read in conjunction with the contingencies and commitments described in note 20 of the Company's audited consolidated financial statements for the year ended December 31, 2006.

16. Segment Information

On July 1, 2007, the Langlois mine commenced commercial production. Production from Langlois after June 30, 2007 is recognized in 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.

For the Nine Months Ended September 30, 2007 *($000's) (Unaudited)*

Operating Segment	Mochito	Toqui	Myra Falls	Langlois	Total
Gross sales revenue	**92,186**	**80,390**	**92,542**	**3,762**	**268,880**
Treatment and marketing costs	**(13,362)**	**(29,656)**	**(23,479)**	**(770)**	**(67,267)**
Net revenue	**78,824**	**50,734**	**69,063**	**2,992**	**201,613**
Direct operating costs	**(18,950)**	**(17,970)**	**(48,978)**	**(1,777)**	**(87,675)**
Depreciation and depletion	**(2,717)**	**(3,026)**	**(5,456)**	**(582)**	**(11,781)**
Reclamation and closure costs	**(744)**	**(213)**	**(1,206)**	**(76)**	**(2,239)**
Contribution (loss) from mining activities	**56,413**	**29,525**	**13,423**	**557**	**99,918**
General and administrative	**–**	**–**	**–**	**–**	**–**
Interest and financing	**–**	**–**	**–**	**–**	**–**
Investment and other income	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**–**
Exploration expenses	**(2,276)**	**(2,469)**	**(2,969)**	**(2,517)**	**(10,231)**
Other non-producing property (costs) income	**–**	**–**	**–**	**–**	**–**
Income and mining tax (provision) recovery	**(15,739)**	**(4,975)**	**(6,686)**	**15,192**	**(12,208)**
Net earnings (loss)	**38,398**	**22,081**	**3,768**	**13,232**	**77,479**
Capital expenditures	**16,008**	**17,132**	**18,912**	**21,491**	**73,543**
Mineral properties and fixed assets	**29,328**	**33,161**	**77,089**	**106,778**	**246,356**
Identifiable assets	**60,448**	**62,127**	**239,283**	**126,996**	**488,854**

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

Revenue Source		**Revenue Generated From**		
($000's)	Myra Falls	Mochito	Toqui	Total
Customer 1	**–**	**33,360**	**23,602**	**56,962**
Customer 2	**30,591**	**18,100**	**–**	**48,691**
Customer 3	**20,981**	**13,568**	**–**	**34,549**
Customer 4	**–**	**24,605**	**3,719**	**28,324**

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

Operating Segment	Mochito	Toqui	Myra Falls	Langlois	Total
Gross sales revenue	89,096	55,277	153,360	–	297,733
Treatment and marketing costs	(20,375)	(18,065)	(41,396)	–	(79,836)
Net revenue	68,721	37,212	111,964	–	217,897
Direct operating costs	(20,561)	(11,305)	(66,019)	–	(97,885)
Depreciation and depletion	(3,815)	(1,454)	(5,977)	–	(11,246)
Reclamation and closure costs	(453)	(223)	(1,124)	(75)	(1,875)
Contribution (loss) from mining activities	43,892	24,230	38,844	(75)	106,891
General and administrative	–	–	–	–	–
Interest and financing	–	–	–	–	–
Investment and other income	–	–	–	–	–
Other	–	–	(1,131)	–	(1,131)
Exploration expenses	(827)	(2,462)	(327)	–	(3,616)
Other non-producing property (costs) income	–	–	–	–	–
Income and mining tax (provision) recovery	(9,509)	(352)	23,066	(5,167)	8,038
Net earnings (loss)	33,556	21,416	60,452	(5,242)	110,182
Capital expenditures	7,458	7,197	13,257	19,043	46,955
Mineral properties and fixed assets	19,842	24,441	64,430	68,764	177,477
Identifiable assets	39,770	48,403	195,120	72,805	356,098

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

Revenue Source		**Revenue Generated From**		
($000's)	Myra Falls	Mochito	Toqui	Total
Customer 1	38,908	8,622	1,564	49,094
Customer 2	47,842	–	–	47,842

Bougrine	Bouchard-Hébert	Nanisivik	Caribou	Total	Corporate and Other	Consolidated
–	**–**	**–**	**–**	**–**	**–**	**268,880**
–	**–**	**–**	**–**	**–**	**–**	**(67,267)**
–	**–**	**–**	**–**	**–**	**–**	**201,613**
–	**–**	**–**	**–**	**–**	**–**	**(87,675)**
–	**–**	**–**	**–**	**–**	**(165)**	**(11,946)**
(209)	**(129)**	**(147)**	**–**	**(485)**	**–**	**(2,724)**
(209)	**(129)**	**(147)**	**–**	**(485)**	**(165)**	**99,268**
–	**–**	**–**	**–**	**–**	**(11,407)**	**(11,407)**
–	**–**	**–**	**–**	**–**	**(3,108)**	**(3,108)**
–	**–**	**–**	**–**	**–**	**11,561**	**11,561**
–	**–**	**–**	**–**	**–**	**(9,965)**	**(9,965)**
(231)	**(413)**	**–**	**–**	**(644)**	**–**	**(10,875)**
(659)	**(556)**	**(216)**	**(40)**	**(1,471)**	**19**	**(1,452)**
–	**–**	**(67)**	**–**	**(67)**	**(4)**	**(12,279)**
(1,099)	**(1,098)**	**(430)**	**(40)**	**(2,667)**	**(13,069)**	**61,743**
–	**–**	**–**	**–**	**–**	**7,473**	**81,016**
1,461	**2,682**	**1,158**	**–**	**5,301**	**8,968**	**260,625**
1,799	**2,814**	**2,013**	**–**	**6,626**	**137,403**	**632,883**

Bougrine	Bouchard-Hébert	Nanisivik	Caribou	Total	Corporate and Other	Consolidated
(52)	–	–	–	(52)	(3,784)	293,897
67	–	–	–	67	–	(79,769)
15	–	–	–	15	(3,784)	214,128
–	–	–	–	–	–	(97,885)
–	–	–	–	–	(73)	(11,319)
(161)	(310)	(164)	(241)	(876)	–	(2,751)
(146)	(310)	(164)	(241)	(861)	(3,857)	102,173
–	–	–	–	–	(10,419)	(10,419)
–	–	–	–	–	(4,009)	(4,009)
–	–	–	–	–	5,236	5,236
–	–	–	–	–	728	(403)
(652)	(2,818)	–	–	(3,470)	11	(7,075)
(667)	(582)	372	11,116	10,239	(39)	10,200
–	–	–	–	–	2,369	10,407
(1,465)	(3,710)	208	10,875	5,908	(9,980)	106,110
–	–	–	–	–	1,374	48,329
1,510	3,066	1,351	–	5,927	1,709	185,113
1,967	3,673	2,551	58	8,249	80,694	445,041

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

Operating Segment	Mochito	Toqui	Myra Falls	Langlois	Total
Gross sales revenue	**30,654**	**23,970**	**29,146**	**3,762**	**87,532**
Treatment and marketing costs	**(5,598)**	**(8,199)**	**(7,469)**	**(770)**	**(22,036)**
Net revenue	**25,056**	**15,771**	**21,677**	**2,992**	**65,496**
Direct operating costs	**(6,538)**	**(6,794)**	**(18,786)**	**(1,777)**	**(33,895)**
Depreciation and depletion	**(798)**	**(436)**	**(1,921)**	**(582)**	**(3,737)**
Reclamation and closure costs	**(323)**	**(67)**	**(402)**	**(22)**	**(814)**
Contribution (loss) from mining activities	**17,397**	**8,474**	**568**	**611**	**27,050**
General and administrative	**–**	**–**	**–**	**–**	**–**
Interest and financing	**–**	**–**	**–**	**–**	**–**
Investment and other income	**–**	**–**	**–**	**–**	**–**
Other	**–**	**–**	**–**	**–**	**–**
Exploration expenses	**(1,073)**	**(370)**	**(1,177)**	**(2,517)**	**(5,137)**
Other non-producing property (costs) income	**–**	**–**	**–**	**–**	**–**
Income and mining tax (provision) recovery	**(5,031)**	**(1,816)**	**(3,677)**	**849**	**(9,675)**
Net earnings (loss)	**11,293**	**6,288**	**(4,286)**	**(1,057)**	**12,238**
Capital expenditures	**6,160**	**7,075**	**7,123**	**(1,272)**	**19,086**

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

Revenue Source	Revenue Generated From			
($000's)	Myra Falls	Mochito	Toqui	Total
Customer 1	**8,678**	**7,881**	**–**	**16,559**
Customer 2	**–**	**14,695**	**1,182**	**15,877**
Customer 3	**–**	**10,218**	**4,181**	**14,399**
Customer 4	**8,515**	**–**	**–**	**8,515**

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

Operating Segment	Mochito	Toqui	Myra Falls	Langlois	Total
Gross sales revenue	37,174	13,432	60,832	–	111,438
Treatment and marketing costs	(7,703)	(4,950)	(16,726)	–	(29,379)
Net revenue	29,471	8,482	44,106	–	82,059
Direct operating costs	(7,434)	(2,362)	(25,098)	–	(34,894)
Depreciation and depletion	(1,173)	(88)	(2,100)	–	(3,361)
Reclamation and closure costs	(154)	(74)	(375)	(25)	(628)
Contribution (loss) from mining activities	20,710	5,958	16,533	(25)	43,176
General and administrative	–	–	–	–	–
Interest and financing	–	–	–	–	–
Investment and other income	–	–	–	–	–
Other	–	–	(55)	–	(55)
Exploration expenses	(263)	(1,414)	(127)	–	(1,804)
Other non-producing property (costs) income	–	–	–	–	–
Income and mining tax provision	(4,348)	(951)	(2,002)	(5,167)	(12,468)
Net earnings (loss)	16,099	3,593	14,349	(5,192)	28,849
Capital expenditures	2,776	1,647	4,700	10,568	19,691

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

Revenue Source	Revenue Generated From			
($000's)	Myra Falls	Mochito	Toqui	Total
Customer 1	38,908	2,409	1,564	42,881
Customer 2	39,282	–	–	39,282
Customer 3	7,947	1,590	10,516	20,053

Bougrine	Bouchard-Hébert	Nanisivik	Caribou	Total	Corporate and Other	Consolidated
–	–	–	–	–	–	87,532
–	–	–	–	–	–	(22,036)
–	–	–	–	–	–	65,496
–	–	–	–	–	–	(33,895)
–	–	–	–	–	(65)	(3,802)
(96)	(43)	(49)	–	(188)	–	(1,002)
(96)	(43)	(49)	–	(188)	(65)	26,797
–	–	–	–	–	(4,013)	(4,013)
–	–	–	–	–	(975)	(975)
–	–	–	–	–	4,919	4,919
–	–	–	–	–	(3,336)	(3,336)
(27)	(120)	–	–	(147)	–	(5,284)
(201)	(161)	(208)	–	(570)	24	(546)
–	–	–	–	–	(113)	(9,788)
(324)	(324)	(257)	–	(905)	(3,559)	7,774
–	–	–	–	–	4,894	23,980

Bougrine	Bouchard-Hébert	Nanisivik	Caribou	Total	Corporate and Other	Consolidated
–	–	–	–	–	599	112,037
(1)	–	–	–	(1)	–	(29,380)
(1)	–	–	–	(1)	599	82,657
–	–	–	–	–	–	(34,894)
–	–	–	–	–	(23)	(3,384)
(46)	(103)	(55)	(34)	(238)	–	(866)
(47)	(103)	(55)	(34)	(239)	576	43,513
–	–	–	–	–	(3,203)	(3,203)
–	–	–	–	–	(1,071)	(1,071)
–	–	–	–	–	1,933	1,933
–	–	–	–	–	252	197
(269)	(524)	–	–	(793)	13	(2,584)
(262)	(254)	(38)	13,473	12,919	(52)	12,867
–	–	–	–	–	–	(12,468)
(578)	(881)	(93)	13,439	11,887	(1,552)	39,184
–	–	–	–	–	1,270	20,961

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

($000's)	Three Months Ended September 30 2007	Three Months Ended September 30 2006 (restated – see note 2)	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006 (restated – see note 2)
Accounts receivable – concentrate	**7,762**	6,870	**20,826**	611
Other receivables	**(5,936)**	3,655	**(11,193)**	(696)
Concentrate inventory	**(14,720)**	2,727	**(31,596)**	4,948
Materials and supplies inventory	**(2,995)**	(166)	**(6,846)**	203
Prepaid expenses and other current assets	**(4,542)**	1,365	**(6,239)**	111
Accounts payable and accrued liabilities	**14,162**	3,474	**19,794**	3,289
Provisional payments for concentrate inventory shipped and not priced	**(30)**	(17,973)	**30,259**	11,263
Income and mining taxes payable	**3,141**	4,221	**2,438**	4,402
	(3,158)	4,173	**17,443**	24,131

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 September 30, 2007 was $2.89 (2006 - $1.25) and during the nine month period ended September 30, 2007 was $2.36 (2006 - $1.19).

	Three Months Ended September 30 2007	Three Months Ended September 30 2006 (restated – see note 2)	Nine Months Ended September 30 2007	Nine Months Ended September 30 2006 (restated – see note 2)
Basic earnings per Common Share	**$0.02**	$0.10	**$0.15**	$0.28
Diluted earnings per Common Share	**$0.02**	$0.09	**$0.14**	$0.25
Basic weighted-average number of Common Shares outstanding *(000's)*	**418,693**	384,335	**411,038**	383,323
Incremental Common Shares on assumed exercise of options and warrants *(000's)*	**27,104**	37,629	**29,894**	35,816
Weighted-average number of Common Shares used for diluted earnings per Common Share *(000's)*	**445,797**	421,964	**440,932**	419,139

19. Subsequent Event

On October 18, 2007, the Company announced that it had discovered a discharge of water from the newly commissioned tailings impoundment area at its Mochito mine which necessitated a suspension of milling. A preliminary evaluation has determined that recommissioning of the previous tailings impoundment area ("Pozo Azul"), for which permitting remains in place, is the quickest method of returning Mochito to full production. The Company is conducting tests in the mill to determine the optimal reagent mix required to control the levels of copper in the mill tailings. If the reagent test is successful, as determined by the production of saleable concentrates, the mill will be able to run at full capacity while the Company completes the construction necessary to increase the tailings capacity at Pozo Azul. If not, the mill will only run intermittently until the Company completes additional construction at Pozo Azul.

Corporate Information

DIRECTORS

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

Grant A. Edey [1, 5]

Joanne Ferstman [1]

Jonathan C. Goodman [4, 5]

Ned Goodman [2]

John W. Ivany

W. Murray John [3]

George E. Pirie [3, 5]

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

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

CORPORATE AND REGISTERED OFFICE

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

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

E-Mail: investorinfo@breakwater.ca

OFFICERS

George Pirie
President and Chief Executive Officer

Dave Langille
Vice President, Finance & Chief Financial Officer

Bill Heath
Executive Vice President

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

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www.breakwater.ca

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