



BREAKWATER
RESOURCES LTD

Third Quarter Report 2009

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 interim consolidated financial statements for the nine months ended September 30, 2009, and related notes thereto (the "third quarter 2009 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, 2008, and related annual management's discussion and analysis, and the Amended and Restated Annual Information Form on file with the Canadian provincial and territorial securities regulatory authorities. Unless otherwise indicated, this MD&A has been prepared as of November 5, 2009. The reporting currency is Canadian dollars ("C\$" or "\$") and all amounts disclosed are in Canadian dollars unless otherwise indicated. Unless the context indicates otherwise, a reference to the "Company" in this MD&A means Breakwater Resources Ltd. and its subsidiaries and other entities owned or controlled, directly or indirectly, by the Company.

The Company is a mining, exploration and development company which produces zinc, copper, lead and gold concentrates. For the nine months ended September 30, 2009, the Company's concentrate production was derived from mines located in Canada, Chile and Honduras. The Company also owns base metal and gold exploration properties in Canada, Honduras, Chile and Tunisia. On November 2, 2008, the Company temporarily suspended operations at Langlois due to the decline in commodity prices and the general deterioration of the economic outlook globally. The temporary suspension of Langlois affects all aspects of the Company's financial results which makes comparisons between years difficult.

HIGHLIGHTS

The strategic focus by Management on cost containment, extraction of higher value mineralized material and prudent capital expenditures have resulted in a significant improvement in the balance sheet. The Company has protected future earnings by purchasing zinc put options leaving shareholders the benefit of higher zinc prices and the Company's financial position is significantly stronger than it was nine to twelve months ago.

The Company had earnings of \$6.5 million or \$0.01 per share in the third quarter of 2009 compared with a net loss of \$36.1 million or \$0.08 per share in the third quarter of 2008. Included in the \$6.5 million net earnings was \$1.6 million of price protection losses related to the purchase of put options to protect the minimum price on certain zinc sales while retaining further price increase exposure. The temporary suspension of operations at Langlois in the fourth quarter of 2008 significantly impacted quarter-over-quarter results. The change in the results quarter-over-quarter were primarily due to:

- \$29.4 million (US\$31.2 million) or 29% lower gross sales revenue due to a 38% decrease in concentrate sold
- \$18.5 million or 54% lower treatment and marketing costs primarily due to lower concentrate sales, more favourable smelter terms and lower freight rates
- \$21.1 million or 38% lower direct operating costs primarily due to lower concentrate sales and cost improvements at all operations
- \$18.0 million lower income and mining tax provisions primarily due to \$19.0 million of future tax assets written off in 2008 which did not recur in 2009
- \$11.0 million write-down of a 20% interest in the mineral properties and fixed assets at Caribou in 2008 which did not recur in 2009

Concentrate produced in the third quarter of 2009 decreased by 34,926 tonnes to 54,588 tonnes primarily due to a 30,501 tonne decrease related to Langlois being placed on care and maintenance and lower planned production at Myra Falls and Toqui partially offset by higher production at Mochito.

OUTLOOK

Mochito

Production at Mochito has been running ahead of budget as it relates to throughput and zinc contained in concentrate, on target for costs and behind target for silver and lead due to changes in the mining cycle resulting in the exploitation of lower grade areas. Accordingly, management now expects that silver contained in concentrate will be approximately 1.8 million ounces and that lead contained in concentrate will be approximately 13,000 tonnes.

Toqui

At Toqui, management has been exploring augmenting its 2.0 megawatts of installed hydro electric capacity with both additional hydro electric and wind power. Subsequent to the quarter end, an agreement was reached with a contractor to install an additional 1.65 megawatts of wind power. At a capital cost of US\$5.5 million, the project has a payback of approximately four and a half years and has been fully financed locally by term debt. As part of the project to install the wind turbines, application will be made to register this project under the Clean Development Mechanism which will enable Toqui to sell certified emission reductions, better known as carbon credits, in the market. Wind power will lower the Company's electrical costs going forward and help meet increased electrical requirements once the thickened tailings backfill plant is up and running. A used thickened tailings backfill plant has been dismantled and transported to Chile. This plant will enable Toqui to deposit thickened tails and allow pillar recovery in the future.

The wind power plant cost was not included in the capital expenditure projections previously provided.

Myra Falls

Production from the South Flank area commenced ahead of plan and this area will continue as a significant source of mill feed for the balance of 2009 and 2010. Operating costs per tonne milled were expected to meet projections, while metals in concentrates were expected to be approximately 31,500 tonnes for zinc, 3,500 tonnes for copper and 557,000 ounces of silver compared with previous guidance.

On November 4, 2009 a fire occurred in the production hoist. The fire was contained and there were no injuries. However, an electrical switch gear was destroyed in the fire rendering the production hoist currently unusable. The Company is currently assessing the impact of the damage and its effect on near term production and costs.

The collective bargaining agreement at Myra Falls expired on September 30, 2009. On November 4, 2009 at 6:30pm (PST), the Company was served with 72 hour strike notice and the union is in a legal strike position effective November 7, 2009 at 6:30pm (PST).

Langlois

The rally in zinc prices from their lows earlier this year has prompted the Company to actively review the economics of a reopening plan for Langlois which contemplates six months of preproduction development work. The recent strength in the Canadian dollar has somewhat offset the rise in zinc prices.

STATEMENT OF OPERATIONS REVIEW – THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

Gross Sales Revenue

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

Concentrate Sold (tonnes)	Third Quarter		First Nine Months	
	2009	2008	2009	2008
Zinc				
Mochito	18,661	18,251	46,407	41,389
Toqui	10,048	10,185	37,055	56,870
Myra Falls	11,645	19,574	39,588	47,164
Langlois ⁽¹⁾	–	22,310	3,618	52,652
	40,354	70,320	126,668	198,075
Copper				
Myra Falls	5,140	4,737	14,375	14,064
Langlois ⁽¹⁾	–	3,462	321	7,666
	5,140	8,199	14,696	21,730
Lead				
Mochito	6,101	4,720	16,510	14,059
Toqui	697	3,323	1,120	4,741
	6,798	8,043	17,630	18,800
Gold				
Toqui	2,298	1,416	5,309	3,702
Myra Falls	–	–	9	–
	2,298	1,416	5,318	3,702
All Metals	54,590	87,978	164,312	242,307

⁽¹⁾ On November 2, 2008, Langlois operations were temporarily suspended.

	Third Quarter 2009				Third Quarter 2008			
	Concentrate sold (tonnes)	Payable metal ⁽¹⁾	Realized price ⁽¹⁾ (US\$)	Gross sales revenue (\$000's)	Concentrate sold (tonnes)	Payable metal ⁽¹⁾	Realized price ⁽¹⁾ (US\$)	Gross sales revenue (\$000's)
Zinc	40,354	17,613	1,678	29,549	70,320	31,302	1,830	57,290
Copper	5,140	1,203	5,115	6,153	8,199	1,633	7,299	11,919
Lead	6,798	4,034	2,037	8,216	8,043	4,487	1,886	8,461
Gold ⁽²⁾	2,298	10,981	957	10,511	1,416	9,082	871	7,907
Silver	n.a.	847,480	14.57	12,352	n.a.	721,541	15.45	11,151
Price protection loss	n.a.			(1,476)	n.a.			–
Other ⁽³⁾	n.a.			122	n.a.			(114)
	54,590				87,978			
Gross sales revenue in US\$				65,427				96,614
Exchange rate				1.0947				1.0454
Gross sales revenue in C\$				71,622				101,004

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

⁽²⁾ Gold concentrate sales are principally from Toqui while payable metal is from all operations except Mochito.

⁽³⁾ Other gross sales revenue represents revaluations of prior period concentrate receivables.

Concentrate sold decreased 38% in the third quarter of 2009 compared with the third quarter of 2008. The 33,388 tonne decrease in 2009 was primarily due to the impact of the temporary care and maintenance at Langlois (25,772 tonnes sold in the third quarter of 2008) and 1,881 and 7,526 fewer tonnes of concentrate sold at Toqui and Myra Falls respectively partially offset by 8% more tonnes at Mochito. In payable metal terms, zinc, copper and lead decreased by 44%, 26% and 10% respectively while gold and silver sales increased by 21% and 17% respectively.

Realized prices denominated in US\$ increased for lead and gold by 8% and 10% respectively in the third quarter of 2009 while zinc, copper and silver decreased by 8%, 30% and 6% respectively. The Company periodically hedges against fluctuations in metal prices and foreign exchange rates using forward sales or options. The Company has not applied hedge accounting historically; therefore, mark-to-market gains or losses have been included in gross sales revenue at the end of each period.

During the third quarter of 2009, the Company purchased zinc put options at a cost of \$0.9 million to guarantee a minimum price on a portion of its zinc production for 2010. During the third quarter of 2009, the Company recorded a \$1.6 million loss in gross sales revenue related to the marking-to-market of the puts outstanding at September 30, 2009 and the expiry of put option contracts in the third quarter. The put options outstanding at September 30, 2009 had a fair market value of \$0.5 million and their value is recorded in other receivables. At September 30, 2009, the Company's zinc put option position consisted of:

Period	Tonnes	Strike price per tonne (weighted average)
Q4 2009	7,200	US\$1,362
Q1 2010	4,200	US\$1,543
Q2 2010	4,200	US\$1,543

Gross sales revenue decreased by US\$31.2 million or 32% in the third quarter of 2009 primarily due to the 38% decline in sales volumes noted above. A weaker C\$ resulted in an increase in the average C\$/US\$ exchange rate of 5%. In C\$ terms, gross sales revenue decreased \$29.4 million or 29% compared with the third quarter of 2008.

The Company's revenue recognition policy requires that, among other things, final pricing of concentrate inventories be known prior to the recognition of revenue. Using commodity prices and exchanges rates prevailing at September 30, 2009, the following schedule provides details regarding inventories shipped but not recognized for revenue purposes and the related provisional payments.

	Net smelter Concentrate (DMT)	InventoryEarnings return (\$000's)	Provisional value (\$000's)	Weighted-average before taxes (\$000's)	payments (\$000's)	months to settlement
Zinc	8,091	5,217	3,584	1,633	793	1.9
Copper	1,926	4,073	3,315	758	–	1.0
Gold	1,452	3,796	2,465	1,331	1,113	1.4
	11,469	13,086	9,364	3,722	1,906	

As at September, 2008, the Company estimated that inventories shipped but not recognized for revenue purposes had earnings before tax of \$2.9 million consisting of \$33.0 million of net smelter return less \$30.1 million of inventory value on 40,041 tonnes of concentrate.

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

Average Metal Prices & Foreign Exchange Rate	Third Quarter		First Nine Months	
	2009	2008	2009	2008
Zinc (US\$/tonne)	1,761	1,770	1,469	2,105
Copper (US\$/tonne)	5,859	7,680	4,650	7,973
Lead (US\$/tonne)	1,928	1,912	1,528	2,373
Gold (US\$/ounce)	960	869	931	898
Silver (US\$/ounce)	14.70	15.03	13.68	16.63
C\$/US\$ exchange rate	1.0976	1.0417	1.1694	1.0188

Treatment and Marketing Costs

Treatment and marketing costs decreased 54% to \$15.5 million in the third quarter of 2009 from \$33.9 million in the third quarter of 2008 primarily due to the 38% decrease in concentrate sold, lower freight rates and more favourable smelter terms. Treatment and marketing costs for the third quarter of 2009 were 22% of gross revenue compared with 34% in 2008. See details of treatment and marketing under each mine's Expenses in the Production Results section of this MD&A.

Direct Operating Costs

Direct operating costs were 38% lower in the third quarter of 2009 at \$34.0 million compared with \$55.0 million in the third quarter of 2008. The decreased costs were primarily due to lower concentrate sales and the temporary suspension of Langlois. Also see details of direct operating costs under each mine's Expenses in the Production Results section of this MD&A.

Depreciation and Depletion

Depreciation and depletion decreased \$5.9 million or 43% in the third quarter of 2009 compared with the corresponding period in 2008. The decrease was primarily due to the temporary suspension of Langlois, lower concentrate sales and lower asset base at Myra Falls due to the \$25.3 million write-down at December 31, 2008. Also see details of depreciation and depletion costs under each mine's Expenses in the Production Results section of this MD&A.

Reclamation and Closure Costs

Reclamation and closure costs decreased by \$1.1 million to \$0.9 million in the third quarter of 2009 compared with \$2.0 million in the corresponding period in 2008 primarily due to a \$1.1 million expense at Bouchard-Hèbert which did not recur in 2009.

General and Administrative

General and administrative expenses decreased by \$1.3 million or 34% in the third quarter of 2009 compared with 2008 primarily due to lower bonus accruals, salary and benefits, corporate development, legal and audit fees.

Investment and Other Income

Investment and other income was \$2.6 million in the third quarter of 2009 compared with \$8.5 million in 2008. The \$5.9 million swing was primarily due to a realized gain on sale of investment of \$4.1 million and a \$2.1 million unrealized gain on the mark-to-market of investments both in the third quarter of 2008.

Foreign Exchange and Other

The \$2.9 million change in foreign exchange and other was primarily due to the weaker C\$ at September 30, 2009 compared with September 30, 2008

Exploration

Exploration expenses decreased by \$4.6 million in the third quarter of 2009 compared with 2008. Significantly lower expenses at corporate, Mochito and Langlois accounted for the decrease.

Other Non-Producing Property Costs

Other non-producing property costs increased by \$1.0 million for the third quarter of 2009 compared with the equivalent period in 2008 primarily due to \$1.2 million of care and maintenance costs at Langlois.

Income and Mining Tax Provision

In the third quarter of 2009, income and mining tax provision decreased by \$18.0 million compared with the respective 2008 period primarily due a \$19.0 million write-off of tax assets at Myra Falls and Langlois in 2008 and reduced tax provisions at Mochito partially offset by an increased tax provision at Toqui.

LIQUIDITY AND FINANCIAL POSITION REVIEW

Working Capital

Working capital at the September 30, 2009 was \$63.3 million compared with \$29.2 million at December 31, 2008, an increase of \$34.1 million.

Current Assets

Total current assets decreased \$3.4 million to \$97.9 million at September 30, 2009 compared with December 31, 2008. The main components of the current asset change were:

- Restricted cash increased by \$5.8 million due to a loan to finance a wind power plant at Toqui for which collateral arrangements had not yet been finalized at September 30, 2009 and the related cash was therefore restricted
- Concentrate inventory increased by \$3.4 million due to increased concentrate inventories at Toqui partially offset by the elimination of concentrate inventories at Langlois
- Materials and supplies inventory decreased by \$4.7 million primarily due to lower supplies inventories at Mochito and Toqui and disposals of certain inventories at Langlois

Current Liabilities

Current liabilities decreased by \$37.5 million to \$34.6 million at September 30, 2009 compared with December 31, 2008. The main components of the current liabilities change were:

- Accounts payable and accrued liabilities decreased by \$26.5 million primarily due to a decrease of \$11.0 million of provisional payments refundable to customers, \$7.4 million decrease at Langlois related to the temporary suspension of operations and \$3.8 million and \$2.2 million lower payables at Mochito and Myra Falls respectively
- Provisional payments for concentrate inventory shipped and not priced, which represent payments received for concentrate shipments that were not recognized as revenue, decreased by \$8.6 million. Refer to the table in Gross Sales Revenue section of this MD&A for additional details

Provisional payments for concentrate inventory shipped and not priced are based on prices prevailing on the date of payment. Recognition of sales can be as much as six months after the date of concentrate production based on contract terms. In the event that prices deteriorate significantly, a portion of the provisional payment may have to be repaid to the customer.

Restricted Reclamation Investments

At September 30, 2009, the Company had restricted reclamation investments of \$31.5 million compared with \$35.0 million at December 31, 2008. Reclamation deposits of \$10.9 million and \$20.6 million are held under a safe keeping agreement and a trust indenture respectively to fund future reclamation requirements at Myra Falls.

Restricted Promissory Notes

The Company held four restricted promissory notes at September 30, 2009 totalling \$105.7 million compared with three restricted promissory notes totalling \$80.9 million at December 31, 2008. All promissory notes are related to Myra Falls royalty transactions¹ completed in 2004, 2005, 2008 and 2009. The interest earned and a portion of the principal of these restricted promissory notes will be used to meet the Company's royalty obligations.

Deferred Income

Deferred income of \$6.8 million at September 30, 2009 consisted of deferred indemnity agreement fees and prepaid interest income related to the Myra Falls royalty transactions¹ in 2004, 2005, 2008 and 2009 which will be recognized as income over the terms of the four agreements.

¹ For further information on the Myra Falls royalty please see the Company's most recent audited consolidated financial statement filed on SEDAR at www.sedar.com or available on the Company's website at www.breakwater.ca.

Royalty Obligations

The royalty obligations of \$101.9 million at September 30, 2009 relate to the royalty amounts received from the 2004, 2005, 2008 and 2009 Myra Falls royalty transactions¹. See restricted promissory notes above.

Long-term Debt

Long-term debt increased by \$7.1 million to \$9.0 million primarily due to a \$5.9 million (US\$5.5 million) loan entered into the third quarter of 2009 to finance a wind power plant at Toqui and the movement of a certain debt from short-term to long-term.

Reclamation, Closure Cost Accruals and Other Environmental Obligations

Reclamation, closure cost accruals and other environmental obligations represent the Company's obligation for reclamation and severance costs accrued for its mine sites. At September 30, 2009, total reclamation, closure cost accruals and other environmental obligations were \$30.5 million compared with \$28.5 million at December 31, 2008.

Of the \$30.5 million, \$5.2 million is classified as current and is expected to be spent over the next 12 months at Nanisivik, Bouchard-Hébert, Bougrine and Myra Falls. The Company spent \$0.6 million in reclamation and closure costs in the third quarter of 2009 compared with \$1.3 million in the third quarter of 2008. As there is currently no law, regulation or contract in Honduras related to reclamation and closure costs, GAAP does not permit the Company to set up a liability for reclamation at the Mochito mine. Closure and reclamation costs for Mochito are estimated to be \$7.1 million (US\$6.6 million).

Reclamation and Closure Cost Accruals and Other Environmental Obligations at September 30, 2009

<i>(\$ millions)</i>	Current	Long-term	Total
Myra Falls	0.7	19.2	19.9
Mochito ⁽¹⁾	0.0	1.3	1.3
Toqui	0.0	2.9	2.9
Langlois	0.0	1.1	1.1
Bouchard-Hébert	2.5	0.1	2.6
Nanisivik	1.4	0.4	1.8
Bougrine	0.6	0.3	0.9
Total	5.2	25.3	30.5

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

Future Income Tax Liabilities

Future income tax liabilities increased \$2.4 million to \$5.6 million at September 30, 2009. The increase was primarily due to a \$2.2 million increase in Québec mining duties at Langlois in 2009 partially offset by a \$0.3 million decrease at Toqui related to timing differences.

¹ For further information on the Myra Falls royalty please see the Company's most recent audited consolidated financial statement filed on SEDAR at www.sedar.com or available on the Company's website at www.breakwater.ca.

Shareholders' Equity

Shareholders' equity at September 30, 2009 was \$311.3 million compared with \$309.7 million at December 31, 2008. The increase of \$1.6 million was primarily due to the Company closing a public offering for gross proceeds of \$23.0 million in April 2009 (the "Offering") partially offset by a net loss of \$4.6 million and an other comprehensive loss of \$16.0 million.

Shareholders' Equity (\$000's)	Capital stock	Warrants	Contributed surplus	Retained earnings	Other comprehen- sive income	Total shareholders' equity
As at December 31, 2008	212,374	8,538	4,925	80,568	3,257	309,662
Common Shares issued to a third party	12	–	–	–	–	12
Unit offering	16,865	4,519	–	–	–	21,384
Value ascribed to options exercised under stock-based compensation	21	–	(21)	–	–	–
Expiry of Warrants	–	(8,538)	8,538	–	–	–
Exercise of Warrants	5	(1)	–	–	–	4
Employee share option plan - proceeds of options exercised	29	–	–	–	–	29
Employee share purchase plan	243	–	–	–	–	243
Stock-based compensation	–	–	432	–	–	432
Other comprehensive loss	–	–	–	–	(15,959)	(15,959)
Loss	–	–	–	(4,551)	–	(4,551)
As at September 30, 2009	229,549	4,518	13,874	76,017	(12,702)	311,256

In the first nine months of 2009, the Company issued the following Common Shares: 230,000,000 Common Shares and 115,000,000 warrants pursuant to the Offering; 100,000 Common Shares to a third party; 1,821,765 Common Shares pursuant to the Company's employee share purchase plan and 150,000 Common Shares pursuant to the Company's share option plan. The 33,481,849 warrants outstanding at December 31, 2008 expired on January 28, 2009.

Capital Expenditures

The Company invested \$18.1 million in mineral properties and fixed assets in the first nine months of 2009. At mining operations, \$9.4 million, \$6.9 million, \$1.1 million and \$0.1 million were invested at Mochito, Toqui, Myra Falls and Langlois respectively. For details of these expenditures, please refer to the financial results discussion for each mine. Corporate capital expenditures of \$0.5 million primarily related to earn-in payments made on certain joint venture properties.

Financial Capability

With the existing working capital, the current metal prices and current C\$/US\$ exchange rate, the Company expects to be able to carry out its operating, capital, exploration and environmental programs in 2009. The Company's financial capability is sensitive to operating performance, metal prices, smelter treatment charges and the C\$/US\$ exchange rate.

PRODUCTION RESULTS

The table below contains the Company's production for the periods presented. On November 2, 2008, the Company temporarily suspended operations at Langlois due to the decline in commodity prices and the general deterioration of the economic outlook globally.

All Mines	Third Quarter		First Nine Months	
	2009	2008	2009	2008
Tonnes Milled	436,287	596,713	1,247,614	1,786,013
Zinc (%)	6.0	7.4	5.7	6.7
Concentrate Production (tonnes)				
Zinc				
Mochito	17,584	14,191	48,213	41,559
Toqui	10,498	16,243	30,866	49,523
Myra Falls	15,669	17,539	40,289	51,890
Langlois ⁽¹⁾	–	26,561	–	60,693
	43,751	74,534	119,368	203,665
Copper				
Myra Falls	3,079	4,495	10,602	17,530
Langlois ⁽¹⁾	–	3,940	–	9,186
	3,079	8,435	10,602	26,716
Lead				
Mochito	4,912	4,912	14,880	13,922
Toqui	413	1,362	1,582	4,202
	5,325	6,274	16,462	18,124
Gold				
Toqui	2,433	271	6,469	1,346
Myra Falls	–	–	2	–
	2,433	271	6,471	1,346
Total	54,588	89,514	152,903	249,851
C\$ operating costs, production basis (\$000's)	28,092	46,103	89,157	152,535
C\$ operating cost per tonne milled (production basis)	64	77	71	85

⁽¹⁾ On November 2, 2008, Langlois operations were temporarily suspended.

Concentrate produced in the third quarter of 2009 decreased by 39% to 54,588 tonnes primarily due to Langlois being placed on care and maintenance during the fourth quarter of 2008 as well as lower planned zinc concentrate production at Toqui and Myra Falls, lower lead concentrate production at Toqui and lower copper concentrate production at Myra Falls.

Aggregate operating costs and operating costs per tonne milled decreased in the third quarter of 2009 compared with 2008 due to the temporary suspension of Langlois and reduced operating costs at Toqui and Myra Falls partially offset by the impact of a weaker C\$. Also see details under each mine's production in the respective production results section of this MD&A.

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

Metal in Concentrate	Third Quarter			First Nine Months		
	2009	2008	%	2009	2008	%
Zinc (tonnes)						
Mochito	9,284	7,594	22%	25,686	21,992	17%
Toqui	5,077	8,064	-37%	14,820	24,474	-39%
Myra Falls	8,475	9,615	-12%	21,788	28,103	-22%
Langlois ⁽¹⁾	–	14,366	n.a.	–	32,574	n.a.
	22,836	39,639	-42%	62,294	107,143	-42%
Copper (tonnes)						
Myra Falls	789	1,057	-25%	2,457	4,129	-40%
Langlois ⁽¹⁾	–	742	n.a.	–	1,713	n.a.
	789	1,799	-56%	2,457	5,842	-58%
Lead (tonnes)						
Mochito	3,146	3,315	-5%	9,673	9,240	5%
Toqui	223	763	-71%	853	2,126	-60%
	3,369	4,078	-17%	10,526	11,366	-7%
Gold (ounces)						
Toqui	10,191	3,718	174%	30,977	13,327	132%
Myra Falls	4,019	2,996	34%	9,652	11,124	-13%
Langlois ⁽¹⁾	–	494	n.a.	–	1,227	n.a.
	14,210	7,208	97%	40,629	25,678	58%
Silver (ounces)						
Mochito	462,024	479,617	-4%	1,314,046	1,462,986	-10%
Toqui	51,325	84,048	-39%	181,912	248,558	-27%
Myra Falls	156,443	159,760	-2%	355,699	526,331	-32%
Langlois ⁽¹⁾	–	88,905	n.a.	–	255,439	n.a.
	669,792	812,330	-18%	1,851,657	2,493,314	-26%

⁽¹⁾ On November 2, 2008, Langlois operations were temporarily suspended.

Aggregate production of zinc in concentrate in the third quarter of 2009 was 42% lower at 22,836 tonnes. The decrease in zinc production was primarily due to Langlois being placed on care and maintenance as well as planned lower production from Toqui and Myra Falls partially offset by higher production from Mochito. Production of copper in concentrate decreased 56% in the third quarter of 2009 due to fewer tonnes milled at Myra Falls and no production from Langlois. Production of lead in concentrate decreased 17% in the third quarter of 2009 due to lower lead grades at Mochito despite more tonnes milled and lower planned lead production at Toqui. Gold in concentrate increased 97% in the third quarter of 2009 due to higher production from Myra Falls and the planned increase in milling of gold material at Toqui. Silver in concentrate decreased 18% primarily due to lower silver grades at Mochito and Toqui and no production from Langlois.

MOCHITO

(i) Mochito Financial Results

(\$000's)	Third Quarter		First Nine Months	
	2009	2008	2009	2008
Gross sales revenue	35,918	27,009	71,608	78,185
Treatment and marketing costs	(7,279)	(8,546)	(20,717)	(22,045)
Net revenue	28,639	18,463	50,891	56,140
Direct operating costs	(14,319)	(10,503)	(31,841)	(27,154)
Depreciation and depletion	(5,355)	(2,504)	(11,954)	(6,283)
Reclamation and closure costs	(314)	(391)	(1,010)	(925)
Contribution from mining activities	8,651	5,065	6,086	21,778
Exploration	(112)	(821)	(319)	(1,788)
	8,539	4,244	5,767	19,990
Income and mining tax provision	(811)	(1,206)	(1,006)	(5,198)
Net earnings	7,728	3,038	4,761	14,792
Capital expenditures	3,116	5,820	9,424	19,776

Revenue:

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

	Third Quarter 2009				Third Quarter 2008			
	Concentrate sold (tonnes)	Payable metal ⁽¹⁾	Realized price ⁽¹⁾ (US\$)	Gross sales revenue (US\$)	Concentrate sold (tonnes)	Payable metal ⁽¹⁾	Realized price ⁽¹⁾ (US\$)	Gross sales revenue (US\$)
Zinc	18,661	8,336	1,726	14,389	18,251	8,044	1,782	14,332
Lead	6,101	3,689	2,046	7,547	4,720	2,910	1,891	5,503
Silver	n.a.	737,068	14.70	10,835	n.a.	410,851	14.70	6,040
Other ⁽²⁾	n.a.			117	n.a.			-
	24,762				22,971			
Gross sales revenue in US\$				32,888				25,875
Exchange rate				1.0921				1.0438
Gross sales revenue in C\$				35,918				27,009

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

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

Concentrate sold in the third quarter of 2009 was 8% higher due to the timing of shipments. The increase and mix of concentrates sold resulted in a 27% rise in gross sales revenues in US\$ terms. A weakening of the C\$ resulted in gross sales revenue in C\$ terms increasing by 33% in the third quarter of 2009.

Expenses:

Aggregate treatment and marketing costs quarter-over-quarter decreased 15% primarily due to more favourable smelter terms and lower freight rates partially offset by a weaker C\$ and the increase in concentrate sold.

Direct operating costs increased \$3.8 million or 36% in the third quarter of 2009 due to the 8% increase in concentrate sold and higher hydro rates, labour costs and ground control costs. Direct operating cost per tonne of concentrate sold were \$578 in the third quarter of 2009 compared with \$457 in 2008 primarily due to the factors noted above.

Depreciation and depletion for the third quarter of 2009 increased \$2.9 million or 114% when compared with 2008 largely due to the higher quantity of concentrate sold, depreciation of capital spares and lower reserves used for depletion purposes.

Exploration expenses in the third quarter of 2009 were \$0.7 million lower compared with the respective period in 2008. Please refer to the drilling section below for additional details.

Income and mining tax provision for the third quarter of 2009 decreased by \$0.4 million compared with the respective period in 2008 principally due to changes in foreign exchange adjustments which are not tax effected.

Capital Expenditures:

At Mochito, \$9.4 million was invested in the first nine months of 2009 primarily as follows: \$3.6 million for mine development; \$1.7 million for spare parts for mining equipment, \$1.1 million for road construction and \$1.3 million for tailings facilities.

(ii) Mochito Production

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

	Third Quarter		First Nine Months	
	2009	2008	2009	2008
Tonnes Milled	193,479	160,427	539,012	484,762
Zinc (%)	5.4	5.3	5.4	5.1
Lead (%)	2.0	2.5	2.2	2.3
Silver (g/t)	88	105	89	106
Concentrate Production				
Zinc (tonnes)	17,584	14,191	48,213	41,559
Recovery (%)	88.6	89.3	88.0	89.0
Grade (%)	52.8	53.5	53.3	52.9
Lead (tonnes)	4,912	4,912	14,880	13,922
Recovery (%)	81.2	82.7	82.7	82.2
Grade (%)	64.1	67.5	65.0	66.4
Metal in Concentrates				
Zinc (tonnes)	9,284	7,594	25,686	21,992
Lead (tonnes)	3,146	3,315	9,673	9,240
Silver (ounces)	462,024	479,617	1,314,046	1,462,986
US\$ operating costs, production basis (\$000's)	10,252	8,949	28,252	26,472
US\$ operating cost per tonne milled (production basis)	53	56	52	55

Production of zinc in concentrate was 22% higher in the third quarter of 2009 compared with the same period in 2008 due to more tonnes milled at a slightly higher zinc head grade. Production of lead in concentrate in the third quarter of 2009 was 5% lower than the same period in 2008 due to lower lead grades despite higher mill throughput.

Compared with previously disclosed guidance, mill throughput was higher than target with higher zinc grades and lower lead and silver grades than planned resulting in higher zinc and lower lead and silver production on a metal contained in concentrate basis.

(iii) Mochito Drilling

Exploration efforts during the third quarter of 2009 continued to extend the Imperial, Santo Niño, Barbasco and Port Royal chimneys. All four chimneys remain open in at least one direction and the Company will continue drilling in these areas during the next three months.

A total of 5,258 metres was drilled from underground during the third quarter of 2009. Definition and valuation drilling accounted for 4,043 metres while exploration and extensional drilling accounted for 1,215 metres.

Exploration indicates that the Imperial zone is of considerable interest and is open above, below and to the north. The current known size of the zone confirms that the Barbasco-Imperial trend has great potential along strike and that further exploration along the trend is warranted.

Access drifting continues towards the Imperial zone on both the 1850 and 2050 levels. The upper level will be extended to the north of the Imperial zone in the search for the next deposit along this mineral trend. The underground exploration program is complemented by surface drilling 500 metres to the north of the known deposit. The surface drill program has commenced and the first drillhole is in progress. It is expected to intersect the manto at a depth of 1,150 metres.

The Port Royal chimney has been drill tested up to 200 metres above the 1850 level. A new drill station on this level will test the chimney higher in the stratigraphy where it intersects the Mochito shale (200 metres higher still).

During the third quarter of 2009, five holes were drilled in search of the San Juan chimney above the Mochito shales, however, the holes were not able to pass through the Mochito shales as planned, so the program was cancelled. An alteration pipe was traced within the Mochito shales which indicates a larger deposit may exist where the alteration pipe intersects the upper Atima limestone. This area will be drill tested from surface.

Exploration commenced during the quarter on the Raiz de Salvador chimney. The objective is to explore the area above and below the Mochito shales directly beneath the Salvador chimney. Several other known chimneys have large deposits where the chimney intersects the Mochito shales (upper and lower contact). In the past, this chimney was mined above the 1225 level and was never explored below this level. The first hole drilled from underground to the lower contact of the shales intersected the shales farther down than expected. The shales were partly to heavily altered and showed a one metre thick band of strong dissemination of sphalerite and lesser galena. The results indicate that mineralizing fluids passed through this area and further exploration of this zone is warranted.

(iv) Mochito Outlook

Production at Mochito has been running ahead of budget as it relates to throughput and zinc contained in concentrate, on target for costs and behind target for silver and lead due to changes in the mining cycle resulting in the exploitation of lower grade areas. Accordingly, management now expects that silver contained in concentrate will be approximately 1.8 million ounces and that lead contained in concentrate will be approximately 13,000 tonnes.

TOQUI

(i) Toqui Financial Results

(\$000's)	Third Quarter		First Nine Months	
	2009	2008	2009	2008
Gross sales revenue	17,369	18,190	50,067	77,292
Treatment and marketing costs	(4,194)	(7,683)	(15,977)	(30,922)
Net revenue	13,175	10,507	34,090	46,370
Direct operating costs	(6,343)	(8,594)	(15,360)	(26,278)
Depreciation and depletion	(2,228)	(2,281)	(5,317)	(6,255)
Reclamation and closure (costs) recovery	(55)	(36)	(175)	958
Contribution (loss) from mining activities	4,549	(404)	13,238	14,795
Exploration	(95)	(129)	(459)	(816)
	4,454	(533)	12,779	13,979
Income and mining tax provision	(1,302)	(271)	(1,721)	(2,678)
Net earnings (loss)	3,152	(804)	11,058	11,301
Capital expenditures	2,842	3,681	6,902	17,755

Revenue:

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

	Third Quarter 2009				Third Quarter 2008			
	Concentrate sold (tonnes)	Payable metal ⁽¹⁾	Realized price ⁽¹⁾ (US\$)	Gross sales revenue ((\$000's)	Concentrate sold (tonnes)	Payable metal ⁽¹⁾	Realized price ⁽¹⁾ (US\$)	Gross sales revenue ((\$000's)
Zinc	10,048	3,946	1,533	6,049	10,185	4,041	1,801	7,278
Lead	697	345	1,938	669	3,323	1,577	1,876	2,958
Gold	2,298	9,036	962	8,690	1,416	6,338	863	5,472
Silver	n.a.	31,119	14.51	452	n.a.	103,022	16.27	1,676
Other ⁽²⁾	n.a.			5	n.a.			(108)
	<u>13,043</u>				<u>14,924</u>			
Gross sales revenue in US\$				15,865				17,276
Exchange rate				<u>1.0948</u>				<u>1.0529</u>
Gross sales revenue in C\$				<u>17,369</u>				<u>18,190</u>

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

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

Total concentrate sold in the third quarter of 2009 was 13% less than in the third quarter of 2008 primarily due to lower planned production levels and the timing of shipments. Lower concentrate sales and a lower zinc price resulted in an 8% decrease in gross sales revenue in US\$ terms. A 4% increase in the exchange rate resulted in 5% lower gross sales revenue in C\$ terms.

Expenses:

Treatment and marketing costs were 45% lower on an aggregate basis in the third quarter of 2009 compared with the third quarter of 2008 primarily due to 13% fewer tonnes of concentrate sold, more favourable smelter terms and lower freight rates partially offset by a weaker C\$. As a percentage of gross revenue, treatment and marketing costs decreased to 24% from 42% in the same period in 2008 primarily due to the factors noted above.

Direct operating costs in the third quarter of 2009 were 26% lower than in the same period in 2008 primarily due to lower tonnes of concentrate sold, the impact of cost savings initiatives and lower diesel prices.

Income and mining tax provision for the third quarter of 2009 increased by \$1.0 million primarily due to higher earnings before tax in the 2009 period compared with respective period in 2008.

Capital Expenditures:

Toqui capital expenditures of \$6.9 million in the first nine months of 2009 consisted primarily of: \$1.9 million for development of Mina Profunda; \$1.9 million for other development; \$2.3 million for thickened tailings plant equipment and tailings facilities and \$0.3 million for equipment.

(ii) Toqui Production

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

	Third Quarter		First Nine Months	
	2009	2008	2009	2008
Tonnes Milled	128,679	128,673	365,829	388,486
Zinc (%)	4.7	7.1	4.8	7.1
Lead (%)	0.3	1.0	0.4	0.9
Gold (g/t)	3.3	1.4	3.5	1.5
Silver (g/t)	16	29	22	27
Concentrate Production				
Zinc (tonnes)	10,498	16,243	30,866	49,523
Recovery (%)	85.8	88.8	86.1	89.0
Grade (%)	48.4	49.7	48.0	49.4
Lead (tonnes)	413	1,362	1,582	4,202
Recovery (%)	62.5	60.4	59.9	59.9
Grade (%)	54.0	56.0	53.9	50.6
Gold (tonnes)	2,433	271	6,469	1,346
Recovery (%)	60.6	51.0	60.4	54.8
Grade (g/t)	96.9	221.1	108.1	159.5
Metal in Concentrates				
Zinc (tonnes)	5,077	8,064	14,820	24,474
Lead (tonnes)	223	763	853	2,126
Gold (ounces)	10,191	3,718	30,977	13,327
Silver (ounces)	51,325	84,048	181,912	248,558
US\$ operating costs, production basis (\$000's)	5,734	6,170	15,989	18,903
US\$ operating cost per tonne milled (production basis)	45	48	44	49

Production of zinc in concentrate was 37% lower in the third quarter of 2009 compared with the same period in 2008 due to lower zinc grades and recoveries. Production of lead in concentrate was 71% lower due to lower planned lead grades. Production of gold in concentrate was 174% higher in the third quarter of 2009 due to higher planned gold grades.

As the price of zinc exceeded expected prices, the Company did not reduce throughput as projected but continued to mine zinc bearing deposits in addition to the gold bearing deposits. Mining the zinc deposits in addition to the gold deposits in the third quarter of 2009 resulted in higher cash flows and lower costs per tonne than planned.

(iii) Toqui Drilling

During the third quarter of 2009, a total of 3,580 metres of underground definition drilling was carried out from several in-mine locations. A total of 600 metres was drilled in order to define the limits of Mina Profunda II, a horizon of calcareous sandstone with economic gold values, situated approximately 40 metres beneath the Aserradero North area. Another 400 metres was drilled in the main Aserradero South mine, which has extended the southern limits of the deposit as well as identifying the presence of copper mineralization on the south side of the Fortuna fault, one of the principal limiting faults of the Aserradero mine. An additional 2,040 metres was drilled from several locations into the calcareous sandstone horizon beneath the Doña Rosa mine, identifying sub-economic zinc and gold mineralization. The final 566 metres was drilled to the west of the Estatuas mine, with good indications of zinc mineralization.

(iv) Toqui Outlook

At Toqui, management has been exploring augmenting its 2.0 megawatts of installed hydro electric capacity with both additional hydro electric and wind power. Subsequent to the quarter end, an agreement was reached with a contractor to install an additional 1.65 megawatts of wind power. At a capital cost of US\$5.5 million, the project has a payback of approximately four and a half years and has been fully financed locally by term debt. As part of the project to install the wind turbines, application will be made to register this project under the Clean Development Mechanism which will enable Toqui to sell certified emission reductions, better known as carbon credits, in the market. Wind power will lower the Company's electrical costs going forward and help meet increased electrical requirements once the thickened tailings backfill plant is up and running. A used thickened tailings backfill plant has been dismantled and transported to Chile. This plant will enable Toqui to deposit thickened tails and allow pillar recovery in the future.

The wind power plant cost was not included in the capital expenditure projections previously provided.

MYRA FALLS

(i) Myra Falls Financial Results

(\$000's)	Third Quarter		First Nine Months	
	2009	2008	2009	2008
Gross sales revenue	19,918	28,354	54,844	75,490
Treatment and marketing costs	(3,987)	(9,351)	(13,798)	(22,494)
Net revenue	15,931	19,003	41,046	52,996
Direct operating costs	(13,291)	(19,252)	(38,378)	(56,314)
Depreciation and depletion	(343)	(1,675)	(1,165)	(4,469)
Reclamation and closure costs	(394)	(427)	(2,698)	(1,287)
Contribution (loss) from mining activities	1,903	(2,351)	(1,195)	(9,074)
Exploration	–	(49)	–	(1,027)
	1,903	(2,400)	(1,195)	(10,101)
Income and mining tax provision	–	(5,297)	–	(8,164)
Net earnings (loss)	1,903	(7,697)	(1,195)	(18,265)
Capital expenditures	389	283	1,104	3,250

Revenue:

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

	Third Quarter 2009				Third Quarter 2008			
	Concentrate sold (tonnes)	Payable metal ⁽¹⁾	Realized price ⁽¹⁾ (US\$)	Gross sales revenue (\$000's)	Concentrate sold (tonnes)	Payable metal ⁽¹⁾	Realized price ⁽¹⁾ (US\$)	Gross sales revenue (\$000's)
Zinc	11,645	5,332	1,709	9,111	19,574	9,023	1,741	15,710
Copper	5,140	1,203	5,117	6,153	4,737	1,047	7,096	7,430
Gold	n.a.	1,945	936	1,821	n.a.	2,381	887	2,113
Silver	n.a.	79,293	13.43	1,065	n.a.	101,839	17.21	1,753
Other ⁽²⁾	n.a.			n.a.	n.a.			n.a.
	16,785				24,311			
Gross sales revenue in US\$				18,150				27,006
Exchange rate				1.0974				1.0499
Gross sales revenue in C\$				19,918				28,354

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

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

Concentrate sold in the third quarter of 2009 was 31% lower than in the third quarter of 2008. Lower concentrate sales and lower realized zinc and copper prices resulted in revenues for the quarter decreasing by 33% in US\$ terms. A 5% higher exchange rate resulted in gross sales revenue decreasing 30% in C\$ terms to \$19.9 million.

Expenses:

In the third quarter of 2009, treatment and marketing costs were 57% lower on an aggregate basis primarily due to 31% lower concentrate sales, lower freight rates and more favourable smelter terms partially offset by the higher exchange rate. As a percentage of gross revenue, in the third quarter of 2009, treatment and marketing costs decreased 20% from 33% in the same period in 2008 primarily due to the factors noted above.

Aggregate direct operating costs decreased 31% primarily due to 31% lower concentrate sales and cost reductions achieved in 2008 and 2009, reduced write-downs related to marking inventory to the lower of cost and net realizable value and reduced restructuring expenses partially offset by increased pension expenses.

Income and mining taxes decreased \$5.3 million in the third quarter of 2009 primarily due to a \$5.3 million write-down of a future tax asset in the third quarter of 2008 which did not recur in 2009.

Capital Expenditures:

Myra Falls' capital expenditures in the first nine months of 2009 of \$1.1 million consisted primarily of \$0.3 million for a new tailings disposal area; \$0.4 million for equipment; and, \$0.2 million in ramp development.

(ii) Myra Falls Production

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

	Third Quarter		First Nine Months	
	2009	2008	2009	2008
Tonnes Milled	114,129	131,043	342,773	465,932
Zinc (%)	8.4	8.4	7.2	6.9
Copper (%)	1.1	1.1	1.0	1.2
Gold (g/t)	1.6	1.2	1.3	1.2
Silver (g/t)	54	51	43	45
Concentrate Production				
Zinc (tonnes)	15,669	17,539	40,289	51,890
Zinc recovery (%)	88.6	87.7	88.2	87.0
Zinc grade (%)	54.1	54.8	54.1	54.2
Gold recovery (%)	23.8	24.9	22.0	25.2
Gold grade (g/t)	2.8	2.3	2.5	2.8
Copper (tonnes)	3,079	4,495	10,602	17,530
Copper recovery (%)	57.9	71.8	68.7	74.4
Copper grade (%)	25.6	23.5	23.2	23.5
Gold recovery (%)	37.9	32.2	34.7	35.2
Gold grade (g/t)	21.8	11.8	14.9	11.5
Gold (tonnes)	0.03	–	1.94	–
Recovery (%)	8.8	–	8.1	–
Grade (g/t)	441,912	–	21,442	–
Metal in Concentrates				
Zinc (tonnes)	8,475	9,615	21,788	28,103
Copper (tonnes)	789	1,057	2,457	4,129
Gold (ounces)	4,019	2,996	9,652	11,124
Silver (ounces)	156,443	159,760	355,699	526,331
C\$ operating costs, production basis (\$000's)	11,028	15,318	38,231	61,548
C\$ operating cost per tonne milled (production basis)	97	117	112	132

Production of zinc in concentrate was 12% lower in the third quarter of 2009 compared with the same period in 2008 due to fewer tonnes milled despite higher recoveries. Production of copper in concentrate was 25% lower in the third quarter of 2009 due to fewer tonnes milled and lower recoveries.

Compared with previously disclosed guidance, mill throughput and zinc, copper and silver grades were lower than expectations. Lower head grades were primarily due to ore dilution compounded by decreased mining recovery to plan, both associated with remnant mining. Mill recoveries were also negatively affected by the lower head grade. Copper recoveries were affected by a period of high lead grades resulting in a lead to copper ratio of 1:1. The mine plan is being adjusted to increase blending to reduce this problem in the future.

(iii) Myra Falls Drilling

During the third quarter of 2009, exploration drilling was entirely focused on the west side of the Battle lens towards three targets; the West Gap area, the West Gopher Down-Drop, and a new zone called the RE-108 lens. A total of 2,845 metres was drilled during the quarter.

The West Gopher Down-Drop drill program has been deferred, pending core logging and interpretation.

During the third quarter of 2009, delineation of a new polymetallic zone - RE-108 - was undertaken. The lens has now been substantiated to the point where the development is being accelerated in order to bring some of this material into the mine plan in the fourth quarter of 2009. The zone is currently open to the west.

The South Flank area is presently in production as well as undergoing increased development. The South Flank Main lens and South Flank East lens accesses are now under development and any additional drilling in this area has been deferred to the fourth quarter of 2009.

A drill has been moved up to 20 level in the HW mine to drill two orientation holes into the Price-South Flank stratigraphy.

(iv) Myra Falls Outlook

Production from the South Flank area commenced ahead of plan and this area will continue as a significant source of mill feed for the balance of 2009 and 2010. Operating costs per tonne milled were expected to meet projections, while metals in concentrates were expected to be approximately 31,500 tonnes for zinc, 3,500 tonnes for copper and 557,000 ounces of silver compared with previous guidance.

On November 4, 2009 a fire occurred in the production hoist. The fire was contained and there were no injuries. However, an electrical switch gear was destroyed in the fire rendering the production hoist currently unusable. The Company is currently assessing the impact of the damage and its effect on near term production and costs.

The collective bargaining agreement at Myra Falls expired on September 30, 2009. On November 4, 2009 at 6:30pm (PST), the Company was served with 72 hour strike notice and the union is in a legal strike position effective November 7, 2009 at 6:30pm (PST).

LANGLOIS OUTLOOK

The rally in zinc prices from their lows earlier this year has prompted the Company to actively review the economics of a reopening plan for Langlois which contemplates six months of preproduction development work. The recent strength in the Canadian dollar has somewhat offset the rise in zinc prices..

NON-GAAP RECONCILIATIONS

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

Three Months ended September 30, 2009

(\$000's)	Mochito	Toqui	Myra Falls	Langlois ⁽¹⁾	Total
Direct operating costs per financial statements	14,319	6,343	13,291	13	33,966
Adjustment to production basis	(3,427)	235	(2,252)	n.a.	(5,444)
Less: stock-based compensation	(1)	(14)	(11)	(13)	(39)
Less: royalties	n.a.	(391)	n.a.	n.a.	(391)
Operating costs on production basis (C\$)	10,891	6,173	11,028	–	28,092
Average exchange rate	1.0623	1.0766	1.0882	n.a.	1.0755
Operating costs on production basis (US\$)	10,252	5,734	10,134	n.a.	26,120
Tonnes milled	193,479	128,679	114,129	n.a.	436,287
Operating cost per tonne milled – US\$	53	45	89	n.a.	60
Operating cost per tonne milled – C\$	56	48	97	n.a.	64

⁽¹⁾ On November 2, 2008, Langlois operations were temporarily suspended.

Three Months ended September 30, 2008

(\$000's)	Mochito	Toqui	Myra Falls	Langlois	Total
Direct operating costs per financial statements	10,503	8,594	19,252	16,671	55,020
Adjustment to production basis	(1,175)	(1,583)	(3,850)	(1,661)	(8,269)
Less: stock-based compensation	(10)	(20)	(44)	(14)	(88)
Less: royalties	n.a.	(560)	n.a.	n.a.	(560)
Operating costs on production basis (C\$)	9,318	6,431	15,358	14,996	46,103
Average exchange rate	1.0412	1.0423	1.0552	1.0424	1.0464
Operating costs on production basis (US\$)	8,949	6,170	14,555	14,386	44,060
Tonnes milled	160,427	128,673	131,043	176,570	596,713
Operating cost per tonne milled – US\$	56	48	111	81	74
Operating cost per tonne milled – C\$	58	50	117	85	77

Nine Months ended September 30, 2009

(\$000's)	Mochito	Toqui	Myra Falls	Langlois ⁽¹⁾	Total
Direct operating costs per financial statements	31,841	15,360	38,378	1,175	86,754
Adjustment to production basis	738	3,886	(84)	(1,133)	3,407
Less: stock-based compensation	(9)	(42)	(63)	(42)	(156)
Less: royalties	n.a.	(848)	n.a.	n.a.	(848)
Operating costs on production basis (C\$)	32,570	18,356	38,231	–	89,157
Average exchange rate	1.1528	1.1480	1.1694	n.a.	1.1589
Operating costs on production basis (US\$)	28,252	15,989	32,693	n.a.	76,934
Tonnes milled	539,012	365,829	342,773	n.a.	1,247,614
Operating cost per tonne milled – US\$	52	44	95	n.a.	62
Operating cost per tonne milled – C\$	60	50	112	n.a.	71

⁽¹⁾ On November 2, 2008, Langlois operations were temporarily suspended.

Nine Months ended September 30, 2008

(\$000's)	Mochito	Toqui	Myra Falls	Langlois	Total
Direct operating costs per financial statements	27,154	26,278	56,314	43,837	153,583
Adjustment to production basis	(140)	(5,664)	5,483	968	647
Less: stock-based compensation	(45)	(119)	(249)	(46)	(459)
Less: royalties	n.a.	(1,236)	n.a.	n.a.	(1,236)
Operating costs on production basis (C\$)	26,969	19,259	61,548	44,759	152,535
Average exchange rate	1.0188	1.0188	1.0188	1.0188	1.0188
Operating costs on production basis (US\$)	26,472	18,903	60,412	43,933	149,720
Tonnes milled	484,762	388,486	465,932	446,833	1,786,013
Operating cost per tonne milled – US\$	55	49	130	98	84
Operating cost per tonne milled – C\$	56	50	132	100	85

SUMMARY OF QUARTERLY RESULTS

	2007 Q4	2008 Q1	2008 Q2	2008 Q3	2008 Q4	2009 Q1	2009 Q2	2009 Q3
Gross sales revenue (\$ millions)	135.5	81.9	115.1	101.0	100.1	64.1	40.9	71.6
Net earning (loss) (\$ millions)	(38.4)	(6.9)	8.1	(36.1)	(53.5)	(6.5)	(4.5)	6.5
Basic earnings (loss) per share	\$(0.09)	\$(0.02)	\$0.02	\$(0.08)	\$(0.12)	\$(0.01)	\$(0.01)	\$0.01
Weighted-average number of Common Shares outstanding (millions)	421.6	425.8	446.4	446.5	446.8	447.7	678.4	678.9
Diluted earnings (loss) per share	\$(0.09)	\$(0.02)	\$0.02	\$(0.08)	\$(0.12)	\$(0.01)	\$(0.01)	\$0.01
C\$/US\$ realized exchange rate	0.9857	1.0047	1.0100	1.0457	1.2050	1.2499	1.1599	1.0947
Average realized zinc price (US\$/t)	2,608	2,409	2,205	1,830	1,331	1,156	1,413	1,678
Average realized zinc price (C\$/t)	2,571	2,420	2,227	1,914	1,604	1,445	1,639	1,837
Concentrate tonnes sold ⁽¹⁾	102,415	59,210	95,188	87,978	104,229	66,051	43,670	54,590
Concentrate tonnes produced ⁽¹⁾	72,470	73,481	86,856	89,514	65,986	49,803	48,512	54,588

⁽¹⁾ On November 2, 2008, Langlois operations were temporarily suspended.

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

RELATED PARTY TRANSACTIONS

In the second quarter of 2009, Dundee Corporation, a significant shareholder of the Company, purchased 57,960,000 units under the Offering to maintain its approximate 25.2% equity interest in the Company.

CRITICAL ACCOUNTING ESTIMATES

Asset Impairment

The carrying values of producing mineral properties, including properties placed on a care and maintenance basis and related deferred expenditures, are reviewed when events or changes in circumstances arise that may result in impairments in the carrying value of those assets. Estimated future net cash flows, on an undiscounted basis, are calculated for each property using: estimated recoverable reserves; estimated future metal price realization (considering historical and current prices, price trends and related factors); and, estimated operating, capital and other cash flows.

For 2008 testing purposes, the Company used the price assumptions contained in the Sensitivity to Metal Prices and Exchange Rates section in the MD&A dated February 26, 2009 and estimated future price realizations and exchange rates for 2010 to the end of each mine's life. Estimates of future cash flows are subject to risks and uncertainties. It is possible that changes may be required to these assumptions in the future which may affect the assessment of recoverability of the carrying value of mineral properties. See Sensitivity to Metal Prices and Exchange Rates section in the year-end MD&A dated February 26, 2009 at www.sedar.com.

Provisional Payments for Concentrate Shipped and Not Priced

Provisional payments for concentrate inventory shipped and not priced are based on price estimates prevailing close to the date the concentrate is shipped and final pricing can occur several months later, therefore, if there is a dramatic decline in metal pricing during this period, the Company could be required to remit funds back to its customers.

Employee Future Benefits

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial reports valuing this hourly plan are prepared every three years using the projected accumulated benefit method, with December 31, 2007 being the most recent valuation. Employee future benefits relate only to employees at Myra Falls and include amounts related to unionized hourly employee defined benefit pension plan and post-retirement supplements and medical benefits to certain non-union employees. The determination of employee future benefit expenses, obligations and funding requirements require the use of estimates which can produce significant measurement uncertainty into the actuarial valuation process. Such estimates include: mine closure assumptions, expected average remaining service lifetime, termination of employment, retirement timing, mortality, marital status, discount rates, rate of return on plan assets and health care and dental cost inflation assumptions.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Institute of Chartered Accountants announced that GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The standard also requires that comparative figures for 2010 be based on IFRS. The Company is currently in the planning stages and cannot at this time determine the final impact of the transition to IFRS. As at September 30, 2009, the Company has completed a “Phase 1 - Preliminary Study” which analyses the Company’s existing financial reporting and provides a preliminary assessment of the potential key impact areas of the IFRS conversion. The Company has formed a steering committee to oversee the implementation of the conversion to IFRS and plans to hold training sessions for staff and directors in the final quarter of 2009. The Company has commenced “Phase 2 – Planning and Implementation” which is to develop a detailed project plan, evaluate the potential key impact areas and the options available under IFRS.

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

OUTSTANDING SHARE DATA AND FULL DILUTION CALCULATION

The Company is authorized to issue an unlimited number of Common Shares and 200,000,000 preferred shares, issueable in series. There are no preferred shares outstanding. Each Common Share entitles the holder of record thereof to one vote at all meetings of shareholders of the Company, except at meetings at which only holders of another class or series of shares of the Company are entitled to vote. The table set forth below summarizes the Capital Stock. For a more complete description of certain elements please refer to note 16 to the 2008 audited consolidated financial statements and to note 20 to the third quarter 2009 unaudited consolidated financial statements of the Company.

Common Shares or Securities Convertible into Common Shares	November 5, 2009
Issued and outstanding	683,191,280
Share options outstanding weighted-average exercise price \$1.10	6,844,408
Warrants issued at \$0.12, expire April 9, 2014 – traded on TSX	111,053,000
Future fully diluted	801,088,688

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 and freight 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 reserve 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 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 Amended and Restated Annual Information Form. Given these uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date made. 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.

Consolidated Balance Sheets

(Expressed in thousands of Canadian dollars)
(Unaudited)

	September 30, 2009	December 31, 2008
Assets		
Current		
Cash and cash equivalents	18,313	20,328
Restricted cash (note 3)	6,590	761
Short-term investments (note 4)	180	142
Accounts receivable – concentrate	1,820	614
Other receivables	10,196	12,451
Concentrate inventory (note 5)	25,223	21,816
Materials and supplies inventory	32,545	37,278
Prepaid expenses and other current assets	3,044	5,748
Income and mining tax receivable	32	1,550
Future income tax assets (note 12)	–	621
Total current assets	97,943	101,309
Restricted reclamation investments (note 6)	31,541	35,026
Mineral properties and fixed assets	260,628	277,990
Restricted promissory notes (note 9)	105,724	80,886
	495,836	495,211
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	24,373	50,837
Provisional payments for concentrate inventory shipped and not priced	1,906	10,512
Short-term debt including current portion of long-term debt (note 7)	2,049	4,854
Income and mining taxes payable	1,152	264
Current portion of reclamation, closure cost accruals and other environmental obligations (note 10)	5,147	5,622
Total current liabilities	34,627	72,089
Deferred income (note 9)	6,822	5,924
Long-term lease obligations	76	125
Royalty obligations (note 9)	101,852	78,449
Long-term debt (note 8)	8,964	1,851
Reclamation, closure cost accruals and other environmental obligations (note 10)	25,318	22,906
Employee future benefits (note 11)	1,292	994
Future income tax liabilities (note 12)	5,629	3,211
Total liabilities	184,580	185,549
Shareholders' equity (note 13)	311,256	309,662
	495,836	495,211

Contingencies and commitments (note 17).

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

Approved by the Board

“Garth A.C. MacRae”

Garth A.C. MacRae
Director

“George E. Pirie”

George E. Pirie
Director

Consolidated Statements of Operations and Retained Earnings

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

For the periods ended September 30	Three Months Ended		Nine Months Ended	
	2009	2008	2009	2008
Gross sales revenue	71,622	101,004	176,694	298,009
Treatment and marketing costs	15,460	33,949	51,676	96,132
Net revenue	56,162	67,055	125,018	201,877
Direct operating costs	33,966	55,020	86,754	153,583
Depreciation and depletion	7,972	13,904	18,573	30,951
Reclamation and closure costs	887	2,036	4,492	2,669
	42,825	70,960	109,819	187,203
Contribution (loss) from mining activities	13,337	(3,905)	15,199	14,674
General and administrative	2,443	3,706	8,120	11,433
Interest and financing	776	1,031	2,334	2,978
Investment and other income	(2,614)	(8,497)	(7,292)	(13,536)
Foreign exchange and other expense (income)	2,217	(642)	4,723	(1,488)
Exploration	300	4,923	1,139	13,830
Other non-producing property costs	1,449	437	5,212	1,244
Write-down of mineral properties and fixed assets	–	10,970	–	10,970
	4,571	11,928	14,236	25,431
Earnings (loss) before income and mining tax provision	8,766	(15,833)	963	(10,757)
Income and mining tax provision (note 12)	2,285	20,239	5,514	24,097
Net earnings (loss)	6,481	(36,072)	(4,551)	(34,854)
Retained earnings, beginning of period	69,536	170,126	80,568	168,908
Retained earnings, end of period	76,017	134,054	76,017	134,054
Basic earnings (loss) per Common Share (note 20)	\$0.01	(\$0.08)	(\$0.01)	(\$0.08)
Diluted earnings (loss) per Common Share (note 20)	\$0.01	(\$0.08)	(\$0.01)	(\$0.08)
Basic weighted-average number of				
Common Shares outstanding (000's) (note 20)	678,926	446,508	601,701	439,556

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

Consolidated Statements of Accumulated Other Comprehensive (Loss) Income

(Expressed in thousands of Canadian dollars)

(Unaudited)

	September 30, 2009	December 31, 2008
Accumulated other comprehensive income (loss), beginning of period	3,257	(3,817)
Other comprehensive (loss) income	(15,959)	7,074
Accumulated other comprehensive (loss) income, end of period	(12,702)	3,257

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

Consolidated Statements of Other Comprehensive (Loss) Income

(Expressed in thousands of Canadian dollars)

(Unaudited)

For the periods ended September 30	Three Months Ended		Nine Months Ended	
	2009	2008	2009	2008
Net earnings (loss)	6,481	(36,072)	(4,551)	(34,854)
Other comprehensive (loss) income, net of income taxes:				
Unrealized (losses) gains on translating financial statements of self sustaining foreign operations	(9,521)	3,974	(15,797)	6,167
Unrealized loss on short-term available-for-sale securities, net of income tax provision for the 3 months of \$Nil (2008 - \$3) and 9 months of \$1 (2008 - \$4) (note 4)	(1)	(18)	(6)	(23)
Unrealized gain (loss) on restricted investments net of income tax provision for the 3 months of \$9 (2008 - \$23) and 9 months of \$10 (2008 - \$23) (note 6)	49	126	(55)	126
Unrealized loss on long-term available-for-sale securities, net of income tax provision for the 3 months of \$Nil (2008 - \$27) and 9 months of \$Nil (2008 - \$Nil)	-	(172)	-	-
Reclassification of gain (loss) on sale of available-for-sale securities to income (notes 6)	2	(6,479)	(101)	(13,222)
Other comprehensive loss, net of income taxes	(9,471)	(2,569)	(15,959)	(6,952)
Comprehensive loss	(2,990)	(38,641)	(20,510)	(41,806)

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

Consolidated Statements of Cash Flow

(Expressed in thousands of Canadian dollars)
(Unaudited)

For the periods ended September 30	Three Months Ended		Nine Months Ended	
	2009	2008	2009	2008
Operating Activities				
Net earnings (loss)	6,481	(36,072)	(4,551)	(34,854)
Items not affecting cash:				
Depreciation and depletion	7,972	13,904	18,573	30,951
Loss (gain) on sale of investments	3	(2,059)	(118)	(9,035)
Unrealized (gain) loss on investments	(156)	(4,127)	77	1,722
Write-down of mineral properties and fixed assets	-	10,970	-	10,970
Other non-cash items	(202)	443	(416)	2,815
Stock-based compensation (note 13(c))	83	190	433	901
Unrealized deferred income	(912)	(153)	(1,847)	(458)
Future income taxes	1,132	18,377	3,453	15,685
Reclamation, closure cost accruals and other environmental obligations	887	2,036	4,492	2,669
Employee future benefits (note 11)	858	675	2,577	1,384
Payment of reclamation, closure cost accruals and other environmental obligations	(563)	(1,336)	(1,874)	(2,883)
Payment of employee future benefits	(754)	(772)	(2,279)	(2,481)
Changes in non-cash working capital items (note 19)	(9,676)	(17,219)	(31,123)	(23,596)
Net cash provided by (used in) operating activities	5,153	(15,143)	(12,603)	(6,210)
Investing Activities				
(Increase) decrease in restricted cash	(5,829)	68	(5,829)	118
Short-term investments	-	3,569	-	7,017
Long-term investments	-	-	-	13,350
Funds advanced on promissory note (note 9)	-	-	(23,428)	-
Restricted reclamation investments	(224)	(476)	3,302	(476)
Issue of common shares to purchase Myra Falls Limited Partnership	-	-	-	(34)
Acquisition of Metco Resources Inc., net of cash acquired	-	-	-	23
Mineral properties and fixed assets	(6,196)	(16,503)	(18,057)	(65,150)
Proceeds from sale of mineral properties and fixed assets	-	164	1,906	192
Net cash used in investing activities	(12,249)	(13,178)	(42,106)	(44,960)
Financing Activities				
Proceeds from sale of royalty interest (note 9)	-	-	23,428	-
Issue of common shares and warrants for cash, net of issue costs (note 13)	89	97	21,659	284
Deferred income relating to royalties (note 9)	-	-	2,745	-
Decrease in long-term lease obligations	(60)	(72)	(49)	(109)
Increase (decrease) in short-term debt	564	60	(557)	891
Increase in long-term debt	5,468	35	5,468	3,057
Net cash provided by financing activities	6,061	120	52,694	4,123
Net decrease in cash during the period	(1,035)	(28,201)	(2,015)	(47,047)
Cash and cash equivalents, beginning of period	19,348	44,088	20,328	62,934
Cash and cash equivalents, end of period	18,313	15,887	18,313	15,887
Supplemental Information				
Cash interest paid	43	5	549	66
Cash income and mining taxes paid	114	4,328	964	14,635
Cash interest received	185	624	765	984

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

Notes to the Consolidated Financial Statements

For the Periods Ended September 30, 2009 and 2008
(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, 2009 and 2008 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 2 to the Company’s audited consolidated financial statements for the year ended December 31, 2008, 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 2008 Financial Report.

New Pronouncements Not Adopted

In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) announced that Canadian GAAP for publicly accountable enterprises will be replaced by International Financial Reporting Standards (“IFRS”) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The standard also requires that comparative figures for 2010 be based on IFRS. The Company is currently in the planning stages and cannot at this time determine the final impact of the transition to IFRS. As at September 30, 2009, the Company has completed a “Phase 1 - Preliminary Study” which analyses the Company’s existing financial reporting and provides a preliminary assessment of the potential key impact areas of the IFRS conversion. The Company has formed a steering committee to oversee the implementation of the conversion to IFRS and plans to hold training sessions for staff and directors in the final quarter of 2009. The Company has commenced “Phase 2 – Planning and Implementation” which is to develop a detailed project plan, evaluate the potential key impact areas and the options available under IFRS.

In June 2009, the CICA amended section 3862, “Financial Instruments - Disclosures”, to include enhanced disclosures on liquidity risk of financial instruments and new disclosures on fair value measurements of financial instruments. The amendments are effective for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. The Company will apply these amendments for its 2009 annual consolidated financial statements. The impact of the amendments to the fair value measurement and liquidity risk disclosure requirements of the Company are not expected to be significant.

2. Changes in Accounting Policies

On January 1, 2009, the Company adopted CICA accounting standard Section 3064 – Goodwill and Intangible Assets which replaces Section 3062 – Goodwill and Other Intangible Assets, Section 3450 – Research and Development and EIC-27 – Revenues and Expenditures During the Pre-operating Period. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard was effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2008. Adopting this standard did not have a significant impact on the financial statements.

Effective January 1, 2009, the Company adopted EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities retroactively, without restatement. This EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of EIC-173 did not have a significant impact on the financial statements.

Effective January 1, 2009, the Company adopted the Amendments to CICA accounting standard Section 3855 – Financial Instruments: Recognition and Measurement. These amendments permit or require in certain circumstances entities to reclassify certain investments in debt instruments and amended the guidance regarding impairment measurement for Held to Maturity debt instruments and require reversals of impairment of losses for Available for Sale debt instruments when conditions have changed. These amendments apply only to investments in debt instruments and do not apply to investments in equity instruments or to debt instruments that have been designated at origination as Held for Trading. The adoption of the Amendments to Section 3855 did not have a significant impact on the financial statements.

3. Restricted Cash

The restricted cash balance at September 30, 2009 of \$6,590,000 (December 31, 2008 - \$761,000) represents amounts placed on deposit to cover certain reclamation costs of \$511,000 (December 31, 2008 - \$511,000), an amount of \$250,000 (December 31, 2008 - \$250,000) to guarantee an operating lease and \$5,829,000 (US\$5,436,000) (December 31, 2008 - \$Nil) held in trust pending finalization of collateral arrangements for US\$ Bank Loan No.3 (note 8).

4. Short-term Investments

(\$000's)	September 30, 2009	December 31, 2008
Marketable securities:		
Available-for-sale	14	21
Held-for-trading	166	121
	180	142

Marketable securities are carried at fair value with the net unrealized loss on available-for-sale securities for the three and nine months ended September 30, 2009 of \$1,000 (2008 - \$18,000) and \$6,000 (2008 - \$23,000) respectively, recorded in OCI until realized and the unrealized gain of \$100,000 (2008 - loss of \$604,000) and unrealized loss of \$5,000 (2008 - \$1,843,000) on held-for-trading securities for the same periods respectively, recorded in earnings. For the three and nine months ended September 30, 2009 the realized gains on sale of investments of \$Nil (2008 - \$Nil) and \$Nil (2008 - \$691,000) respectively, are included in investment and other income on the consolidated statements of operations and retained earnings. The realized gain includes \$Nil (2008 - \$221,000) that was previously recorded in OCI as unrealized gains.

5. Concentrate Inventory

Concentrate inventory as at September 30, 2009 includes an amount of \$9,364,000 (December 31, 2008 - \$10,111,000) 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 2 of the audited consolidated financial statements for the year ended December 31, 2008.

6. Restricted Reclamation Investments

Restricted reclamation investments at September 30, 2009 consisting of cash collateral on deposit of \$10,900,000 (December 31, 2008 - \$13,500,000) and investments of \$20,641,000 (December 31, 2008 - \$21,526,000) are related to future reclamation activities and are held by third parties to fund future reclamation costs at Myra Falls. The investments of \$20,641,000 (December 31, 2008 - \$21,526,000) were funded through a qualifying environmental trust and are classified as available-for-sale securities and are carried at fair value. In the first quarter ended March 31, 2009, the cash collateral on deposit and the investment were reduced by \$2,600,000 and \$1,500,000 respectively, representing surplus amounts. The net unrealized gain on the investments for the three months ended September 30, 2009 of \$49,000 (2008 - \$126,000) and the net unrealized loss of \$55,000 (2008 - unrealized gain of \$126,000) for the nine months ended September 30, 2009 are recorded in OCI until realized. The realized loss on the investments for the three months ended September 30, 2009 of \$3,000 (2008 - \$Nil) and the realized gain for the nine months ended September 30, 2009 of \$118,000 (2008 - \$Nil) are recorded in income. The realized gain includes \$101,000 (2008- \$Nil) that was previously recorded in OCI. Interest on the investments for the three and nine months ended September 30, 2009 of \$227,000 (2008 - \$Nil) and \$680,000 (2008 - \$Nil) respectively, are recorded in income.

7. Short-term Debt

(\$000's)	September 30, 2009	December 31, 2008
US\$ Bank Loan No. 1	–	4,303
US\$ Bank Loan No. 2	–	551
	–	4,854
Current portion of long-term debt (note 8)	2,049	–
	2,049	4,854

In December 2008, Sociedad Contractual Minera El Toqui (“Toqui”) a wholly-owned subsidiary of the Company obtained a bank loan (“US\$ Bank Loan No.2”) for US\$450,000, for a five month term, repayable in four monthly instalments of US\$50,000 and a final instalment of US\$250,000 plus interest and bears interest of 7.3% for the first instalment and thereafter at the LIBOR rate for 180 days plus 4%. As at June 30, 2009, the loan was repaid. Instalments totalling US\$450,000 plus interest of US\$8,000 were paid during 2009. Interest expense for 2009 was \$7,000.

8. Long-term Debt

(\$000's)	September 30, 2009	December 31, 2008
US\$ Bank Loan No. 1	3,251	–
US\$ Bank Loan No. 3	5,911	–
Reimbursable government assistance, unsecured, non-interest bearing	1,851	1,851
	11,013	1,851
Less current portion	2,049	–
	8,964	1,851

In September 2009, Toqui obtained a bank loan (“US\$ Bank Loan No.3”) for US\$5,500,000, for a one year term, bearing interest of 2.8% per annum for the first three months and thereafter at the LIBOR rate for 90 days plus 2% and other financing costs. The loan is repayable by instalments of US\$200,000, US\$100,000 and the remaining balance due on February 28, 2010, May 29, 2010 and August 27, 2010 respectively. Toqui has the right to renew the loan on August 27 each year for a one year period provided Toqui’s total export equals or exceeds the remaining balance and pays a minimum instalment of US\$100,000. The remaining balance would be repayable by quarterly instalments of US\$200,000 plus interest payable on February 28, May 29, August 27 and November 30 at the LIBOR rate for 90 days plus 2% and other financing costs. The right to renew expires on July 26, 2016. The loan is secured by certain fixed assets with a fair value of US\$5,500,000. The carrying value of the US\$ Bank Loan No.3 approximates its fair value. Interest expense for the three and nine months ended September 30, 2009 was \$15,000.

In June 2008, Toqui obtained a bank loan (“US\$ Bank Loan No.1”) for US\$4,000,000, for a one year term, bearing interest of 4.8% per annum. Toqui has the right to renew the loan on June 6 each year for a one year period repayable by semi-annual instalments of US\$500,000 plus interest payable on June 6 and December 6 at the LIBOR rate for 180 days plus 1.2%. The right to renew expires on June 6, 2012. For the nine months ended September 30, 2009, instalments totalling US\$500,000 (December 2008 - US\$500,000) plus interest of US\$85,000 (December 2008 – US\$95,000) were paid. The carrying value of the US\$ Bank Loan No.1 approximates its fair value. Interest expense for the three and nine months ended September 30, 2009 were \$23,000 (2008 - \$62,000) and \$123,000 (2008 - \$62,000) respectively.

The reimbursable government assistance is for Langlois and consists of an amount of \$500,000 (December 2008 - \$500,000) relating to Zone 97 and \$1,351,000 (December 2008 - \$1,351,000) for the installation of a hydro line. The amount of \$500,000 will be repaid with an instalment of \$200,000 on April 1, 2010 and two instalments of \$150,000 in the following two years and the amount of \$1,351,000 will be repaid by three annual instalments of \$300,000, the first of which is due on April 1, 2010, with a final instalment on April 1, 2012 of \$451,000. The carrying value of the reimbursable government assistance approximates its fair value.

9. Royalty Obligations

In addition to the agreements in place at December 31, 2008, in March 2009, the Company entered into a new royalty agreement (“2009 Fourth Royalty Agreement”) with Red Mile Resources No. 6 Limited Partnership (“Red Mile No.6 - 2009”) whereby the Company sold a basic royalty (“Fourth Basic Royalty”) on a portion of the payable zinc production over the life of the Myra Falls mine. The Company received \$26,171,000 which included royalty income of \$23,428,000, prepaid indemnity fee income of \$1,485,000 and prepaid interest income of \$1,258,000.

Under the terms of the 2009 Fourth Royalty Agreement, the Company is required to make Fourth Basic Royalty payments at fixed amounts per pound of payable zinc produced, which escalate from \$0.004 per pound to \$0.107 per pound over the first 12 years of the agreement. In addition, for the years 2015 through 2019, the Company granted Red Mile No.6 - 2009 a net smelter return of 1.50%, 1.75% or 2.00% if the average price of zinc in a given calendar year exceeds US\$4,250, US\$4,500 or US\$4,750 per tonne respectively.

The Red Mile No.6 - 2009 royalty income component of \$23,428,000 was placed with a financial institution for which the Company received a restricted promissory note. The restricted promissory note earns interest at 7% per annum which is recorded in “Investment and other income” on the consolidated statements of operations and retained earnings and matures on February 15, 2019. Pursuant to the 2009 Fourth Royalty Agreement, interest earned from the restricted promissory notes and a portion of the principal must be used to fund the expected basic royalty payments during the first ten years of the agreement.

Under certain circumstances, the Company has the right, by way of a call option, to acquire the partnership units of Red Mile No.6 - 2009 for the lower of market value or the outstanding amount of the restricted promissory note at the end of the tenth year of the royalty agreement.

The royalty income received from Red Mile No.6 - 2009 is accounted for as debt. The long-term portion is included in “Royalty obligations” and the current portion is included in “Accounts payable and accrued liabilities” on the consolidated balance sheets. The deemed interest rate for the amount under the 2009 Fourth Royalty Agreement is 7% per annum and the charges are included in “Interest and financing” on the consolidated statements of operations and retained earnings.

The prepaid interest income and the indemnity fee received under the 2009 Fourth Royalty Agreement have been recorded in “Deferred income” on the consolidated balance sheets and are being amortized into income over the life of the agreement reflected in “Investment and other income” on the consolidated statements of operations and retained earnings. As at September 30, 2009, prepaid interest income was \$3,492,000 (December 31, 2008 - \$4,246,000) which included a short-term portion of \$Nil (December 31, 2008 - \$447,000) and deferred indemnity fee was \$3,330,000 (December 31, 2008 - \$2,125,000). Total interest expense for the three and nine months ended September 30, 2009 was \$695,000 (2008 - \$373,000) and \$1,748,000 (2008 - \$2,273,000) respectively. Total interest income for the three and nine months ended September 30, 2009 was \$1,810,000 (2008 - \$1,062,000) and \$4,981,000 (2008 - \$3,185,000) respectively.

10. Reclamation, Closure Cost Accruals and Other Environmental Obligations

<i>(\$000's)</i>	September 30, 2009	December 31, 2008
Asset retirement obligations	26,263	24,293
Closure cost accruals	1,665	1,535
Other environmental obligations	2,537	2,700
	30,465	28,528
Less current portion	5,147	5,622
	25,318	22,906

Other environmental obligations represent expenditures required to complete modifications to the tailings facility at the Myra Falls mine. The Company expects to complete the required work by 2010. The estimated obligation was recorded and is being reduced by actual expenditures incurred. As at September 30, 2009, the expenditures since acquisition have been \$15,560,000 (December 31, 2008 - \$15,397,000). The current portion of \$500,000 (December 31, 2008 - \$500,000) 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, 2008	24,293
Change in cash flow estimate (included in reclamation and closure costs)	2,005
Accretion (included in reclamation and closure costs)	886
Expenditures	(931)
Impact of foreign exchange	(188)
As at June 30, 2009	26,065
Accretion (included in reclamation and closure costs)	571
Expenditures	(97)
Impact of foreign exchange	(276)
	26,263
Less: current portion included in Current portion of reclamation, closure cost accruals and other environmental obligations	4,286
As at September 30, 2009	21,977

The change in cash flow estimate includes \$1,783,000, which is for reclamation cost related to exploration oil and gas wells acquired on the purchase of Myra Falls in 2004. The Company expects to complete the required work by 2011.

The estimated amount of undiscounted cash flow required to satisfy the asset retirement obligations as at September 30, 2009, was \$101,293,000 (December 31, 2008 - \$97,806,000). The expected timing of payments ranges from 2009 to 2111, 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% (December 31, 2008 - 7.17% to 7.89%). The estimated amount of undiscounted cash flow for September 30, 2009, includes an amount of \$66,329,000 (December 31, 2008 - \$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, 2009 were \$858,000 (2008 - \$675,000) and \$2,577,000 (2008 - \$1,384,000) respectively. The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The estimated unamortized loss for the year ending December 31, 2009 exceeds 10% of the greater of the plan assets and obligations and is being expensed over the average remaining service period of active employees. For the three and nine months ended September 30, 2009, unamortized losses of \$163,000 and \$489,000 respectively, are included in pension expense. Actuarial reports for funding purposes valuing the defined benefit pension plan are prepared every three years using the accumulated benefit method, with December 31, 2007 being the most recent funding valuation and December 31, 2010 being the next required funding valuation. There is no required valuation for funding purposes for the post retirement pension supplements and benefits plans.

12. Income and Mining Taxes

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

(\$000's)	September 30, 2009	December 31, 2008
Future tax assets		
Loss carry forwards	28,003	30,247
Mineral properties and fixed assets	253,613	261,175
Reclamation and closure cost accruals	6,887	6,819
Deferred income	1,814	1,827
Future tax assets before valuation allowance	290,317	300,068
Valuation allowance	290,317	299,447
Future tax assets	–	621
Future tax liabilities		
Mineral properties – mining tax	(5,629)	(3,211)
Net future tax liabilities	(5,629)	(2,590)

(\$000's)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Income and mining tax provision				
Current income and mining tax provision	1,162	1,508	2,017	6,610
Future income and mining tax provision	1,123	18,731	3,497	17,487
	2,285	20,239	5,514	24,097

13. Shareholders' Equity

Shareholders' equity consists of the following:

(\$000's)	September 30, 2009	December 31, 2008
Capital stock	229,549	212,374
Warrants (a) and (b)	4,518	8,538
Contributed surplus (a) and (c)	13,874	4,925
Retained earnings	76,017	80,568
Accumulated other comprehensive (loss) income	(12,702)	3,257
	311,256	309,662

The Company's objectives when managing shareholders' equity are to provide returns for shareholders and safeguard the ability to continue as a going concern. Mining is an inherently risky business which is capital intensive and, while the Company strives to achieve lowest quartile industry costs at all of its operations and meet cash flow requirements through internally generated cash flows, the Company periodically incurs significant debt to finance acquisitions and operational expansions and for working capital purposes. The Company monitors shareholders' equity on the basis of long-term debt to total shareholders' equity. For the periods ended September 30, 2009 and December 31, 2008, the Company had a nominal level of debt which did not impose any capital constraints or restrictions on the Company.

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, 2009 and December 31, 2008.

Common shares issued: (000's)	Number of Shares	Amount \$
As at December 31, 2008	446,843	212,374
Shares issued on purchase of mineral property	100	12
Shares issued under public offering (b)	230,000	16,865
Employee share option plan – proceeds of options exercised (c)	150	29
Value ascribed to options exercised under stock-based compensation (c)	–	21
Employee share purchase plan	1,451	158
As at June 30, 2009	678,544	229,459
Exercise of warrants (b)	30	4
Reclassification of fair value of warrants exercised from “Warrants” (b)	–	1
Employee share purchase plan	370	85
As at September 30, 2009	678,944	229,549

- a) The fair value of the 33,481,849 warrants outstanding at December 31, 2008 of \$8,538,000 was reclassified to contributed surplus as the warrants expired on January 31, 2009.
- b) On April 9, 2009, the Company completed its public offering (the “Offering”) for net proceeds of \$18,534,000, net of costs of \$1,466,000. A total of 200,000,000 units were issued at a price of \$0.10, with each unit (“Unit”) comprising one Common Share and one-half of a warrant (a “Warrant”). Each whole Warrant entitles the holder to purchase one Common Share at a price of \$0.12 per share until April 9, 2014. The Company granted to the underwriters an over-allotment option to purchase up to 30,000,000 additional Units at a price of \$0.10 per Unit on the same terms and conditions of the Offering. On April 16, 2009, the Company completed the sale of an additional 30,000,000 Units for net proceeds of \$2,850,000, net of costs of \$150,000, pursuant to the exercise of the underwriters’ over-allotment option. Dundee Corporation, which is a significant shareholder of the Company, purchased 57,960,000 Units under the Offering (equal to 25.2% of the total number of Units that were issued on closing plus the Units issued in respect of the underwriters’ over-allotment option) to maintain its approximate 25.2% equity interest in the Company. The fair value of the 115,000,000 warrants, issued on completion of the sale in the amount of \$4,519,000, net of costs of issue, are shown within shareholders equity as “Warrants”.

For the nine months ended September 30, 2009, the fair value of \$1,000 (December 31, 2008 - \$2,000) relating to warrants exercised was transferred from “Warrants” to share capital.

- c) Share option transactions were as follows

	Options (000's)	Weighted-average exercise price
As at December 31, 2008	7,349	\$1.19
Granted	990	0.30
Exercised	(150)	0.19
Forfeited	(45)	1.44
Expired	(1,091)	0.89
As at June 30, 2009	7,053	1.14
Granted	65	0.28
Expired	(254)	1.79
As at September 30, 2009	6,864	\$1.10

As at September 30, 2009:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding (000's)	Weighted-average remaining contractual life	Weighted-average exercise price	Exercisable (000's)	Weighted-average exercise price
\$0.19 - \$0.50	2,757	2 years 304 days	\$0.31	2,054	\$0.32
\$0.51 - \$1.00	670	1 year 257 days	\$0.73	583	\$0.72
\$1.01 - \$1.50	1,408	1 year 225 days	\$1.13	1,395	\$1.13
\$1.51 - \$2.00	659	2 years 180 days	\$1.58	579	\$1.56
\$2.01 - \$2.50	325	2 years 144 days	\$2.09	325	\$2.09
\$2.51 - \$3.00	985	2 years 298 days	\$2.71	985	\$2.71
\$3.01 - \$3.50	5	24 days	\$3.35	5	\$3.35
\$3.51 - \$4.00	50	80 days	\$3.90	50	\$3.90
\$4.01 - \$4.30	5	101 days	\$4.30	5	\$4.30
	6,864			5,981	

The Company's Share Option Plan is described in *note 16(b)* of the Company's audited consolidated financial statements for the year ended December 31, 2008. 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, 2009 of \$433,000 (2008 - \$901,000) less the initial fair value of options exercised of \$21,000 (2008 - \$15,000), for a net amount of \$412,000 (2008 - \$886,000) was credited to "Contributed surplus" within shareholders' equity on the consolidated balance sheets. The proceeds of options exercised are 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	
	2009	2008	2009	2008
Weighted-average exercise price per Common Share	\$0.28	\$Nil	\$0.30	\$0.85
Weighted-average quoted market price per Common Share at date of grant	\$0.28	\$Nil	\$0.30	\$0.85
Weighted-average grant-date fair value price per Common share	\$0.13	\$Nil	\$0.13	\$0.35
Expected life (years)	3	–	3	3
Risk free interest rate	1.89%	0%	1.72%	3.31%
Expected volatility	67%	0%	66%	58%
Dividend yield	0%	0%	0%	0%

- d) At the annual and special shareholders' meeting held on June 18, 2009, the shareholders approved a special resolution to amend the Share Incentive Plan (the "Plan") which is described in *note 2* of the Company's consolidated financial statements for the year ended December 31, 2008, to increase the maximum number of Common Shares of the Company that may be reserved for issuance for all purposes under the Plan from 54,500,000 to 62,500,000. The increase of 8,000,000 Common Shares was used to increase the number of Common Shares reserved for issuance under the Share Purchase Plan from 8,500,000 to 16,500,000.

At the annual and special shareholders' meeting held on June 18, 2009, the shareholders approved a special resolution authorizing the adoption of a deferred share unit plan (the "DSU Plan"). The DSU Plan will be administered by the Compensation Committee (the "Committee") of the Board of Directors. Under the DSU Plan, eligible directors, officers and employees of the Company and affiliates thereof (the "Participants") may be granted units ("Units") as specified by the Committee based on certain criteria determined by the Committee including services performed or to be performed by the Participant. Units are fully vested at the grant date. Units may be redeemed when a participant is no longer a director, officer or employee of the Company or an affiliate and, as specified by the Committee in its sole discretion, be satisfied in its entirety through or as a combination of (i) the issuance of Common Shares (ii) a cash payment or (iii) a cash payment by the Company used to purchase Common Shares on the open market on behalf of the Participant. The maximum number of Common Shares reserved for issuance under the DSU Plan is 13,500,000. As at September 30, 2009, no Common Shares had been issued under the DSU Plan.

14. Financial Instruments

Credit Risk

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

Foreign Exchange Risk

The Company operates using principally the Canadian dollar and the US dollar, and may be negatively affected by fluctuations in foreign exchange rates. The Company manages this risk by minimizing the number of transactions that result in the settlement currency differing from the currency of the initial transaction. In addition, the Company's sales are denominated primarily in US dollars, while a significant percentage of its expenses are denominated in non-US dollars. This exposes the Company to increased volatility in earnings due to fluctuations in foreign exchange rates. The Company's hedging policy enables it to use forward foreign exchange contracts to hedge the exchange rates on identifiable foreign currency exposures. Gains and losses on these contracts when, they are designated as hedges, are reported as a component of the related transactions. The Company had no foreign exchange contracts outstanding at September 30, 2009 and December 31, 2008.

Commodity Price Risk

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

The Company periodically enters into forward sales and options to effectively provide a minimum price for a portion of inventories and future production. In 2009 and 2008, the Company chose not to apply hedge accounting. As a result, outstanding derivative contracts were classified as held-for-trading and are carried at their fair value and are included in "Other receivables" on the consolidated balance sheets. Any gains and losses are recognized in the relevant period and included in "Gross sales revenue" on the consolidated statements of operations and retained earnings. The Company had the following outstanding commodity hedges at September 30, 2009:

	Quantity	Average Price (US\$)	Fair Value (\$000's)	Maturity
Zinc puts bought	3,600 tonnes	\$1,350 per tonne	4	October - December 2009
Zinc puts bought	3,600 tonnes	\$1,375 per tonne	6	October - December 2009
Zinc puts bought	8,400 tonnes	\$1,543 per tonne	481	January 2010 - June 2010
			491	

As at December 31, 2008, there were no outstanding contracts.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company's objectives and policies for managing capital are set out in note 13. The Company only invests in highly liquid investments with reputable counterparts and monitors its cash flow to ensure that there are adequate funds to meet its obligations.

Interest Rate Risk

The Company normally invests in short-term interest-bearing financial instruments. A change in the interest rate would have a minimal effect on the profitability of the Company. At September 30, 2009, interest bearing liabilities amounted to \$9,661,000 with interest rates of LIBOR plus 1.2% and 2%.

Sensitivity

The Company's cash flow and net earnings are sensitive to the movement in a variety of prices and costs and are particularly sensitive to movements in the price of zinc, smelter treatment charges and the C\$/US\$ exchange rate. The following table provides the Company's estimates of the sensitivity of net income to changes in the various metal prices, smelter treatment charges and C\$/US\$ exchange rate movements based on realized prices and exchange rates for the nine months ended September 30, 2009.

Variable	Realized price (US\$)	Change	Change to net earnings for the nine months ended September 30, 2009 (\$000's)
Zinc	1,394 per tonne	10%	3,988
Copper	4,201 per tonne	10%	647
Lead	1,569 per tonne	10%	1,358
Gold	922 per ounce	10%	1,978
Silver	13.56 per ounce	10%	1,482
Exchange rate (C\$/US\$)	1.1685	10%	3,525
Combined weighted-average treatment charges per dry metric tonnes sold	269.48	10%	2,545

15. Related Party Transactions

All related party transactions are disclosed elsewhere in these consolidated financial statements (*note 13(b)*) and as noted in note 21(a) of the audited consolidated financial statements for the year ended December 31, 2008

16. Guarantees

In consideration for the receipt of indemnity fees of \$564,000, \$1,141,000, \$1,091,000 and \$1,485,000 from Wilshire Financial Services Inc. ("Wilshire") related to the 2004 First Royalty Agreement, the 2005 Second Royalty Agreement, the 2008 Third Royalty Agreement and the 2009 Fourth Royalty Agreement (*note 9*) respectively, the Company has indemnified and holds harmless Wilshire from and against any and all losses based upon, arising out of, or otherwise in connection with or as a result of any claims relating to a breach or default by the Company under the 2004 First Royalty Agreement, the 2005 Second Royalty Agreement, the 2008 Third Royalty Agreement and the 2009 Fourth Royalty Agreement. As at September 30, 2009, the maximum liability was \$11,785,000 (December 31, 2008 - \$11,785,000), \$50,500,000 (December 31, 2008 - \$50,500,000), \$15,970,000 (December 31, 2008 - \$15,970,000) and \$23,428,000 (December 31, 2008 - Nil) under the 2004 First Royalty Agreement, the 2005 Second Royalty Agreement, the 2008 Third Royalty Agreement and the 2009 Fourth Royalty Agreement respectively. The indemnity fees were deferred and are being amortized on a straight-line basis over the term of the respective agreements.

17. Contingencies and Commitments

There were no significant changes in contingencies and commitments in the nine month period ended September 30, 2009. The contingencies and commitments are described in note 23 of the Company's audited consolidated financial statements for the year ended December 31, 2008.

18. Segment Information

Segment Information

For the Three Months Ended September 30, 2009 (Unaudited)

(\$000's)	Mochito	Toqui	Myra Falls	Langlois	Total	Non-operating mines	Corporate and Other	Consolidated
Operating Segment								
Gross sales revenue	35,918	17,369	19,918	–	73,205	–	(1,583)	71,622
Treatment and marketing costs	7,279	4,194	3,987	–	15,460	–	–	15,460
Net revenue	28,639	13,175	15,931	–	57,745	–	(1,583)	56,162
Direct operating costs	14,319	6,343	13,291	13	33,966	–	–	33,966
Depreciation and depletion	5,355	2,228	343	23	7,949	–	23	7,972
Reclamation and closure costs	314	55	394	21	784	103	–	887
	19,988	8,626	14,028	57	42,699	103	23	42,825
Contribution (loss) from mining activities	8,651	4,549	1,903	(57)	15,046	(103)	(1,606)	13,337
General and administrative	–	–	–	–	–	–	2,443	2,443
Interest and financing	–	–	–	–	–	–	776	776
Investment and other income	–	–	–	–	–	–	(2,614)	(2,614)
Foreign exchange and other	–	–	–	–	–	–	2,217	2,217
Exploration	112	95	–	93	300	–	–	300
Other non-producing property costs	–	–	–	1,183	1,183	226	40	1,449
	112	95	–	1,276	1,483	226	2,862	4,571
Earnings (loss) before income and mining tax provision	8,539	4,454	1,903	(1,333)	13,563	(329)	(4,468)	8,766
Income and mining tax provision	811	1,302	–	172	2,285	–	–	2,285
Net earnings (loss)	7,728	3,152	1,903	(1,505)	11,278	(329)	(4,468)	6,481
Capital expenditures (recovery)	3,116	2,842	389	–	6,347	–	(151)	6,196
Mineral properties and fixed assets	48,774	59,193	22,278	121,172	251,417	994	8,217	260,628
Identifiable assets	71,731	84,775	179,773	125,344	461,623	1,155	33,058	495,836

Information about major customers – Summary of net revenue from major customers for the three months ended September 30, 2009.

Revenue Source

(\$000's)	Mochito	Toqui	Myra Falls	Total
Customer 1	10,385	–	3,336	13,721
Customer 2	6,242	37	8,155	14,434
Customer 3	3,958	5,415	–	9,373

Segment Information

For the Three Months Ended September 30, 2008 (Unaudited)

(\$000's) Operating Segment	Mochito	Toqui	Myra Falls	Langlois	Total	Non- operating mines	Corporate and Other	Consolidated
Gross sales revenue	27,009	18,190	28,354	27,451	101,004	–	–	101,004
Treatment and marketing costs	8,546	7,683	9,351	8,369	33,949	–	–	33,949
Net revenue	18,463	10,507	19,003	19,082	67,055	–	–	67,055
Direct operating costs	10,503	8,594	19,252	16,671	55,020	–	–	55,020
Depreciation and depletion	2,504	2,281	1,675	7,404	13,864	–	40	13,904
Reclamation and closure costs	391	36	427	20	874	1,162	–	2,036
	13,398	10,911	21,354	24,095	69,758	1,162	40	70,960
Contribution (loss) from mining activities	5,065	(404)	(2,351)	(5,013)	(2,703)	(1,162)	(40)	(3,905)
General and administrative	–	–	–	–	–	–	3,706	3,706
Interest and financing	–	–	–	–	–	–	1,031	1,031
Investment and other income	–	–	–	–	–	–	(8,497)	(8,497)
Foreign exchange and other income	–	–	–	–	–	–	(642)	(642)
Exploration	821	129	49	895	1,894	32	2,997	4,923
Other non-producing property costs	–	–	–	–	–	398	39	437
Write-down of mineral properties	–	–	–	–	–	–	10,970	10,970
	821	129	49	895	1,894	430	9,604	11,928
Earnings (loss) before income and mining tax provision (recovery)	4,244	(533)	(2,400)	(5,908)	(4,597)	(1,592)	(9,644)	(15,833)
Income and mining tax provision (recovery)	1,206	271	5,297	13,719	20,493	–	(254)	20,239
Net earnings (loss)	3,038	(804)	(7,697)	(19,627)	(25,090)	(1,592)	(9,390)	(36,072)
Capital expenditures	5,820	3,681	283	6,461	16,245	–	258	16,503
Mineral properties and fixed assets	51,609	57,914	58,538	132,105	300,166	5,292	9,786	315,244
Identifiable assets	79,091	76,522	191,960	158,522	506,095	6,207	32,826	545,128

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

Revenue Source

(\$000's)	Mochito	Toqui	Myra Falls	Langlois	Total
Customer 1	6,648	–	–	6,393	13,041
Customer 2	–	2,652	10,155	–	12,807
Customer 3	9,435	312	–	–	9,747

18. Segment Information

Segment Information

For the Nine Months Ended September 30, 2009 (Unaudited)

(\$000's)						Non-operating mines	Corporate and Other	Consolidated
Operating Segment	Mochito	Toqui	Myra Falls	Langlois	Total			
Gross sales revenue	71,608	50,067	54,844	2,992	179,511	–	(2,817)	176,694
Treatment and marketing costs	20,717	15,977	13,798	1,184	51,676	–	–	51,676
Net revenue	50,891	34,090	41,046	1,808	127,835	–	(2,817)	125,018
Direct operating costs	31,841	15,360	38,378	1,175	86,754	–	–	86,754
Depreciation and depletion	11,954	5,317	1,165	68	18,504	–	69	18,573
Reclamation and closure costs	1,010	175	2,698	64	3,947	545	–	4,492
	44,805	20,852	42,241	1,307	109,205	545	69	109,819
Contribution (loss) from mining activities	6,086	13,238	(1,195)	501	18,630	(545)	(2,886)	15,199
General and administrative	–	–	–	–	–	–	8,120	8,120
Interest and financing	–	–	–	–	–	–	2,334	2,334
Investment and other income	–	–	–	–	–	–	(7,292)	(7,292)
Foreign exchange and other	–	–	–	–	–	–	4,723	4,723
Exploration	319	459	–	361	1,139	–	–	1,139
Other non-producing property costs	–	–	–	4,464	4,464	682	66	5,212
	319	459	–	4,825	5,603	682	7,951	14,236
Earnings (loss) before income and mining tax provision	5,767	12,779	(1,195)	(4,324)	13,027	(1,227)	(10,837)	963
Income and mining tax provision	1,006	1,721	–	2,176	4,903	–	611	5,514
Net earnings (loss)	4,761	11,058	(1,195)	(6,500)	8,124	(1,227)	(11,448)	(4,551)
Capital expenditures	9,424	6,902	1,104	91	17,521	–	536	18,057

Information about major customers – Summary of net revenue from major customers for the nine months ended September 30, 2009.

Revenue Source

(\$000's)	Mochito	Toqui	Myra Falls	Langlois	Total
Customer 1	12,962	–	15,735	–	28,697
Customer 2	10,385	4,422	10,818	–	25,625
Customer 3	7,741	6,009	6,893	455	21,098

Segment Information

For the Nine Months Ended September 30, 2008 (Unaudited)

(\$000's) Operating Segment	Mochito	Toqui	Myra Falls	Langlois	Total	Non-operating mines	Corporate and Other	Consolidated
Gross sales revenue	78,185	77,292	75,490	67,042	298,009	–	–	298,009
Treatment and marketing costs	22,045	30,922	22,494	20,671	96,132	–	–	96,132
Net revenue	56,140	46,370	52,996	46,371	201,877	–	–	201,877
Direct operating costs	27,154	26,278	56,314	43,837	153,583	–	–	153,583
Depreciation and depletion	6,283	6,255	4,469	13,818	30,825	–	126	30,951
Reclamation and closure costs (income)	925	(958)	1,287	60	1,314	1,355	–	2,669
	34,362	31,575	62,070	57,715	185,722	1,355	126	187,203
Contribution (loss) from mining activities	21,778	14,795	(9,074)	(11,344)	16,155	(1,355)	(126)	14,674
General and administrative	–	–	–	–	–	–	11,433	11,433
Interest and financing	–	–	–	–	–	–	2,978	2,978
Investment and other income	–	–	–	–	–	–	(13,536)	(13,536)
Foreign exchange and other income	–	–	–	–	–	–	(1,488)	(1,488)
Exploration	1,788	816	1,027	3,598	7,229	422	6,179	13,830
Other non-producing property costs	–	–	–	–	–	1,069	175	1,244
Write-down of mineral properties	–	–	–	–	–	–	10,970	10,970
	1,788	816	1,027	3,598	7,229	1,491	16,711	25,431
Earnings (loss) before income and mining tax provision (recovery)	19,990	13,979	(10,101)	(14,942)	8,926	(2,846)	(16,837)	(10,757)
Income and mining tax provision (recovery)	5,198	2,678	8,164	9,003	25,043	–	(946)	24,097
Net earnings (loss)	14,792	11,301	(18,265)	(23,945)	(16,117)	(2,846)	(15,891)	(34,854)
Capital expenditures	19,776	17,755	3,250	23,286	64,067	–	1,083	65,150

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

Revenue Source

(\$000's)	Mochito	Toqui	Myra Falls	Langlois	Total
Customer 1	5,951	13,495	19,482	–	38,928
Customer 2	–	4,600	31,678	–	36,278
Customer 3	6,648	–	–	13,986	20,634

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

(\$000's)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Accounts receivable – concentrate	759	189	(1,206)	1,044
Other receivables	(509)	11,485	(4,413)	14,428
Concentrate inventory	1,052	14,064	(7,805)	4,267
Materials and supplies inventory	(274)	(3,310)	226	(6,331)
Prepaid expenses and other current assets	(49)	1,924	2,577	(569)
Income and mining tax receivable	210	–	1,426	–
Accounts payable and accrued liabilities	(7,357)	(27,871)	(24,906)	(25,093)
Provisional payments for concentrate inventory shipped and not priced	(4,245)	(10,686)	2,092	(3,319)
Income and mining taxes payable	737	(3,014)	886	(8,023)
	(9,676)	(17,219)	(31,123)	(23,596)

20. Earnings (Loss) per Common Share

Basic earnings (loss) per Common Share ("EPS") has been calculated using the weighted-average number of shares outstanding during the year. Incremental Common Shares on assumed exercise of options and warrants are not included in computing the diluted loss per share amount for the nine months ended September 30, 2009 and the three and nine months ended September 30, 2008, as the exercise of options would not have been dilutive. The calculation of diluted earnings (loss) 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 later of the beginning of the period, or time of issue. In applying the treasury stock method, options and warrants with an exercise price greater than the average quoted market price of the Common Shares are not included in the calculation of diluted earnings per Common Share as the effect is anti-dilutive. The average quoted market price of the Common Shares during the three and nine months ended September 30, 2009 were \$0.27 (2008 - \$0.78) and \$0.21 (2008 - \$1.06), respectively.

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Basic earnings (loss) per Common Share	\$0.01	(\$0.08)	(\$0.01)	(\$0.08)
Diluted earnings (loss) per Common Share	\$0.01	(\$0.08)	(\$0.01)	(\$0.08)
Basic weighted-average number of Common Shares outstanding (000's)	678,926	446,508	601,701	439,556
Incremental Common Shares on assumed exercise of options and warrants (000's)	63,021	–	–	–
Weighted-average number of Common Shares used for diluted earnings per Common Share (000's)	741,947	446,508	601,701	439,556

Corporate Information

DIRECTORS

Garth A. C. MacRae ^{2, 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

David M. Petroff ^{1, 4}

George E. Pirie

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

David Petroff
President and Chief Executive Officer

Steven Hayes
Chief Commercial Officer

Fred Hermann
Chief Operating Officer

Dave Langille
Vice President, Finance & Chief Financial Officer

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

Torben Jensen
Vice President, Engineering

Ann Wilkinson
Vice President, Investor Relations
and Assistant Secretary

Lesley Duncan
Corporate Secretary

Leroy Fong
Controller

John Laurie
Treasurer

Shareholder Information

TRANSFER AGENT AND REGISTRAR

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

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

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

E-Mail: service@computershare.com

www.computershare.com

CO-TRANSFER AGENTS

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

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

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

SHARES

Toronto Stock Exchange (TSX)
Symbol - BWR & BWR.WT.A

WEBSITE

www.breakwater.ca

