



## **Breakwater on target to produce 325 million pounds ...ahead of the targeted total cash cost of US\$0.32 per pound in 2003.**

*Management's Discussion and Analysis ("MD&A") for the first quarter ended March 31, 2003 should be read in conjunction with the Company's MD&A included in the 2002 Annual Report*

### **Overview**

The price of zinc in real terms continued to trade at historical lows during the first quarter of 2003. The average realized price of zinc was \$0.36 per pound, unchanged from the first quarter of 2002.

The effect of these low prices continues to put pressure on the finances of the Company. The successful rights offering completed in 2002 and better than expected results for 2002 combined with a modest improvement in the price of zinc and the recently announced sale of the Lapa property should provide the working capital necessary to support operations during 2003. The total cash cost to produce a pound of zinc during the first quarter of 2003 was US\$0.31, its lowest ever and the same as during the first quarter of 2002. Other cash requirements including general and administration, interest and financing, and capital expenditures represent an additional US\$0.04 per pound. At a zinc price of US\$0.35 per pound of zinc, the Company breaks even on a cash basis.

The Company is on target to produce 325 million pounds of payable zinc and ahead of the targeted total cash cost of US\$0.32 per pound of payable zinc in 2003. Production of zinc contained in concentrate decreased by 29 percent during the first quarter of 2003 compared with the same period of 2002 as a direct result of the closure of the Nanisivik mine in September 2002.

### **Financial Results - First Quarter, 2003**

#### ***Net Earnings and Cash Flow***

For the quarter ended March 31, 2003, the Company had consolidated net earnings of \$69,000 (\$0.00 per share) on gross sales revenue of \$52.9 million compared with a consolidated net loss of \$3.3 million (\$0.03 loss

per share) on gross sales revenue of \$64.5 million for the same period in 2002. Gross sales revenue decreased by \$11.6 million from the same period of 2002. Lower sales volumes accounted for \$9.0 million of the decrease. The stronger Canadian dollar further reduced gross sales revenue by \$3.0 million. Zinc and lead prices were lower in the first quarter of 2003 than in the same period of 2002, however, gold, silver and copper prices were higher, more than offsetting the lower zinc and lead prices by \$0.4 million. The stronger Canadian dollar also resulted in an exchange gain of \$5.0 million on US dollar denominated debt. With the Company's existing debt levels, a US\$0.01 increase in the US dollar exchange rate would result in an increase in earnings of \$373,000. Whereas, without the US dollar denominated debt, earnings would decrease by approximately \$786,000. The difference of approximately \$1.1 million would be a non-cash item in the earnings statement.

The loss from mining activities increased by \$2.2 million in 2003 to a loss of \$2.4 million compared with a loss of \$0.2 million in 2002. Direct operating costs during the first quarter of 2003 included higher cost prior period inventory when compared with the same period of 2002 resulting in increased direct costs and reduced margins.

Operating cash flow for the first quarter of 2003 was \$0.4 million (\$0.00 per share) compared with operating cash flow of \$4.1 million (\$0.04 per share) for the first quarter of 2002. Operating cash flow includes \$1.2 million spent on reclamation during the first quarter of 2003, of which \$1.0 million was for the Nanisivik mine, compared with \$0.4 million for the same period of 2002.

As noted above total cash costs for the first three months of 2003 were US\$0.31 per pound of payable zinc, the same as the first three months of 2002. A continuing concentrate shortage kept smelter treatment charges lower and decreased total cash costs by US\$0.01 per pound of payable zinc. This component will increase as the price of zinc increases. Lower treatment charges lead us to believe that our previously forecasted total cash cost of US\$0.32 per pound of payable zinc for 2003 could drop to US\$0.31 per pound.

**“The strengthening of the Canadian dollar to 1.4693 at the end of the first quarter of 2003 from 1.5796 at the end of December 2002 resulted in a \$5.0 million foreign exchange gain”.**

**Statement of Operations and Deficit Data**

(\$000's except for per share numbers)	First Quarter ended March 31	
	2003	2002
Gross Sales Revenue	<b>52,910</b>	64,517
Treatment and Marketing Costs	<b>22,432</b>	31,289
Net Sales Revenue	<b>30,478</b>	33,228
Total Operating Costs	<b>32,833</b>	33,426
(Loss) from Mining Activities	<b>(2,355)</b>	(198)
Net Earnings (Loss)	<b>69</b>	(3,271)
Net Earnings (Loss) per Common Share	–	(0.03)
Cash Provided by Operating Activities <sup>(1)</sup>	<b>433</b>	4,125
Capital Expenditures	<b>3,264</b>	2,297
Weighted Average Number of Common Shares Outstanding after Bonus Element	<b>195,509</b>	101,498

<sup>(1)</sup> Before changes in non-cash working capital items.

**Other Expenses (Income)/Non-producing Property Costs**

General and administrative expenses were relatively unchanged from the comparable quarter of 2002 while interest and financing costs were lower by 37 percent at \$0.7 million. The strengthening of the Canadian dollar to 1.4693 at the end of the first quarter of 2003 from 1.5796 at the end of December 2002 resulted in a \$5.0 million foreign exchange gain. The Company's debt is denominated in US dollars and acts as a hedge for operating costs incurred in currencies other than the US dollar.

**Liquidity and Financial Position**

Working capital decreased from \$22.3 million at December 31, 2002, to a working capital deficiency of \$23.7 million at March 31, 2003 as a result of reclassification of \$47.0 million of long-term debt to current debt. The Company's credit facilities include a US\$30.0 million revolver and non-revolving facilities totaling US\$29.1 million. Drawings under the revolver are determined based on the values of inventories and receivables. As of March 31, 2003 US\$14.8 million had been drawn under the revolver, down from US\$16.0 million at the end of 2002. These credit facilities are repayable on January 2, 2004.

With the proceeds of the sale of the Lapa property, and a modest increase in the price of zinc the Company expects to end the year in a stronger financial position with debt reduced significantly from the March 31, 2003 level of \$70.1 million. On closing, the sale of the Lapa property will result in cash proceeds of approximately \$13.0 million. A portion of the proceeds is to be used to repay the non-revolving facility. Discussions are ongoing with the Company's lenders to arrive at an acceptable sharing of the proceeds. The sale of Lapa will result in a gain of approximately \$11.6 million to be reported in the second quarter of 2003. An additional non-refundable advance royalty of US\$1 million is receivable when the total published inferred resources reach two million ounces of gold.

**Capital Expenditures**

Capital expenditures were \$3.3 million for the first quarter of 2003 compared with \$2.3 million for the same period of 2002. Capital expenditures for the full year of 2003 are expected to be \$12.2 million. This compares with capital expenditures of \$11.0 million for 2002. In addition, during 2003, \$1.5 million (net of proceeds from asset disposals) is expected to be spent on reclamation and mine closure at the Nanisivik mine, which ceased production in September 2002. During the first quarter ended March 31, 2003, \$1.0 million was spent on reclamation at the Nanisivik mine.

**Metal Prices**

The following table sets forth the average realized metal prices for the three months ended March 31, 2003 and 2002.

Metal Prices	First Quarter		
	2003	2002	Change %
Zinc (US\$/pound)	<b>\$ 0.36</b>	\$ 0.36	–
Copper (US\$/pound)	<b>\$ 0.76</b>	\$ 0.73	7
Lead (US\$/pound)	<b>\$ 0.20</b>	\$ 0.22	(9)
Silver (US\$/ounce)	<b>\$ 4.68</b>	\$ 4.49	4
Gold (US\$/ounce)	<b>\$ 344.13</b>	\$ 272.40	26
Exchange Rate, average for the quarter (US/Cdn)	<b>0.662</b>	0.627	6

## Operations

Production of zinc in concentrate in the first quarter ending March 31, 2003 totalled 95 million pounds compared with 133 million pounds in the first quarter of 2002. The reduced zinc production during the quarter reflects the closure of the Nanisivik mine at the end of the third quarter of 2002. Total cash costs of US\$0.31 per pound of payable zinc for the first quarter of 2003 were the same as for 2002 despite the closure of the Nanisivik mine. Total cash costs are calculated on a per pound of payable zinc basis and include all cash costs incurred and expensed at the minesite, plus treatment charges, shipping and marketing costs, net of by-product credits.

The following table details the consolidated operating statistics as well as consolidated operating costs and total cash costs.

	First Quarter	
	2003	2002
Ore Milled (tonnes)	<b>655,616</b>	820,890
Zinc (%)	<b>7.4</b>	8.1
Concentrate Production		
Zinc (tonnes)	<b>80,943</b>	111,929
Copper (tonnes)	<b>8,443</b>	9,218
Lead (tonnes)	<b>5,885</b>	5,390
Gold (tonnes)	<b>848</b>	1,181
Metal in Concentrates		
Zinc (tonnes)	<b>43,125</b>	60,470
Copper (tonnes)	<b>1,328</b>	1,391
Lead (tonnes)	<b>3,935</b>	3,690
Silver (ounces)	<b>588,602</b>	937,545
Gold (ounces)	<b>7,252</b>	7,474
Minesite Operating Costs		
Per tonne milled (US\$)	<b>\$27.84</b>	\$26.61
Total Cash Costs		
Per lb. payable zinc (US\$)	<b>\$0.31</b>	\$0.31

### *Bouchard-Hébert Mine*

At the Bouchard-Hébert mine, production of zinc in concentrate for the quarter increased by 12 percent over the same period in 2002 while the total cash cost was US\$0.29 per pound of payable zinc compared with US\$0.26 per pound of payable for the same period in 2002. The cash cost per pound of payable zinc was higher during the first quarter of 2003 compared with the same period of 2002 for several reasons. While the zinc head grade was up slightly in the first quarter of 2003, the copper head grade and precious metals production were lower than the same period in 2002. The combination of increased zinc production and lower credits for other metals resulted in an increase of US\$0.028 on a quarter over quarter basis. As well, Bouchard-Hébert costs are generally incurred in Canadian dollars, which due to its recent strengthening, increased costs by US\$0.014. Higher

propane costs, due to the excessively long and cold winter, and an increase in stope preparation and mine backfilling activities, both unique to the first quarter, resulted in an increase of US\$0.006. Lower treatment charges reduced the cost by US\$0.002.

	First Quarter	
	2003	2002
Ore Milled (tonnes)	<b>271,059</b>	267,434
Zinc (%)	<b>5.6</b>	5.2
Copper (%)	<b>0.6</b>	0.6
Silver (g/t)	<b>42</b>	47
Gold (g/t)	<b>1.3</b>	1.6
Concentrate Production		
Zinc (tonnes)	<b>24,768</b>	22,069
Recovery (%)	<b>88.9</b>	86.6
Grade (%)	<b>54.6</b>	54.4
Copper (tonnes)	<b>8,443</b>	9,218
Recovery (%)	<b>84.5</b>	82.6
Grade (%)	<b>15.7</b>	15.1
Metal in Concentrates		
Zinc (tonnes)	<b>13,518</b>	12,011
Copper (tonnes)	<b>1,328</b>	1,391
Silver (ounces)	<b>132,649</b>	152,136
Gold (ounces)	<b>6,664</b>	6,187
Minesite Operating Costs		
Per tonne milled (Cdn.\$)	<b>\$36.73</b>	\$32.35
Total Cash Costs		
Per lb. payable zinc (US\$)	<b>\$0.29</b>	\$0.26

The 2002-2003 deep-drilling program at Bouchard-Hébert was essentially completed by the end of the first quarter with a total of 5,293 metres drilled from both surface and underground.

Two surface diamond drill holes were drilled to the north-west of the Bouchard-Hébert mine to investigate a Pulse-Em "off-hole" geophysical anomaly in hole BW-02-136, however, both holes were abandoned due to excess hole deviation. A new hole is presently being drilled to investigate this anomaly and will be completed early in the second quarter.

A surface diamond drill hole drilled four kilometres south-east of the Bouchard-Hébert mine, intersected 15 to 25 percent disseminated pyrite with massive sulphide sections over a core length in excess of 150 metres. A second hole was drilled 500 metres to the north and intersected a similar mineralized zone. Both of these holes had a Pulse-Em "off-hole" geophysical anomaly. A third hole is currently being drilled to investigate these geophysical anomalies.

Plans are currently being prepared for the resumption of the surface exploration program during the second half of 2003.

**“Production in the first quarter from Breakwater’s four operating mines is on schedule to produce the 2003 yearly target of 325 million pounds of zinc”.**

***Nanisivik Mine***

At Nanisivik, there was no production during the first quarter of 2003 as operations ceased on September 30, 2002. Reclamation activities continued during the quarter and as well, CanZinco Ltd. personnel continued discussions with a number of interested parties in an effort to find alternative uses for the existing infrastructure.

	First Quarter	
	2003	2002
Ore Milled (tonnes)	-	182,468
Zinc (%)	-	10.6
Silver (g/t)	-	45
Concentrate Production		
Zinc (tonnes)	-	33,415
Recovery (%)	-	97.0
Grade (%)	-	56.2
Metal in Concentrate		
Zinc (tonnes)	-	18,769
Silver (ounces)	-	211,619
Minesite Operating Costs		
Per tonne milled (Cdn.\$)	-	\$51.02
Total Cash Costs		
Per lb. payable zinc (US\$)	-	\$0.34

***Bougrine Mine***

Production of zinc in concentrate for the quarter increased by 7 percent over the same period in 2002 while the total cash cost remained the same at US\$0.32 per pound of payable zinc. Mine operating costs on a per tonne milled basis were higher in the first quarter of 2003 over the same quarter of 2002 due to an increase in lubricant consumption, expected to return to lower levels in the second quarter of 2003, and an increase in the annual rail and power rates. These two factors accounted for 58 percent of the increase while the impact of the Tunisian Dinar to the US dollar exchange rate accounted for the rest of the increase. The total cash costs remained constant due to improved zinc output in the first quarter of 2003.

	First Quarter	
	2003	2002
Ore Milled (tonnes)	<b>108,901</b>	107,896
Zinc (%)	<b>10.9</b>	10.3
Lead (%)	<b>1.6</b>	1.7
Concentrate Production		
Zinc (tonnes)	<b>17,729</b>	16,514
Recovery (%)	<b>81.9</b>	81.5
Grade (%)	<b>54.6</b>	54.9
Lead (tonnes)	<b>1,874</b>	2,181
Recovery (%)	<b>74.2</b>	80.0
Grade (%)	<b>66.7</b>	67.4
Metal in Concentrates		
Zinc (tonnes)	<b>9,676</b>	9,062
Lead (tonnes)	<b>1,250</b>	1,470
Minesite Operating Costs		
Per tonne milled (US\$)	<b>\$34.56</b>	\$28.28
Total Cash Costs		
Per lb. Payable zinc (US\$)	<b>\$0.32</b>	\$0.32

Confirmation was received during the quarter of the renewal of eight existing exploration permits and the re-staking of four additional exploration permits with a combined area of 39.55 square kilometres covering the entire prospective area of the Bougrine mine.

During the quarter, exploration resumed in the Kouadiat Hanich area where zinc mineralization had previously been targeted in brecciated limestone. The objective of the current program is to obtain a better understanding of the shape and orientation of the brecciated body.

In an ongoing effort to increase the mineral reserves and resources and the operating life of the mine, the Company has been engaged in discussions with the Tunisian authorities on utilizing reserves currently being mined by a government enterprise.

***El Mochito Mine***

At the El Mochito mine, production of zinc in concentrate decreased by 4 percent in the first quarter of 2003 while lead production increased by 21 percent over the same period in 2002. Total cash costs decreased by 3 percent to US\$0.29 per pound of payable zinc from US\$0.30 in the first quarter of 2002. The reduction in costs is attributable to lower treatment charges, improvements in grade control and improved productivity.

	First Quarter	
	2003	2002
Ore Milled (tonnes)	<b>166,494</b>	159,494
Zinc (%)	<b>7.5</b>	8.0
Lead (%)	<b>1.9</b>	1.7
Silver (g/t)	<b>84</b>	108
Concentrate Production		
Zinc (tonnes)	<b>21,924</b>	22,755
Recovery (%)	<b>91.9</b>	93.2
Grade (%)	<b>52.1</b>	52.3
Lead (tonnes)	<b>4,011</b>	3,209
Recovery (%)	<b>83.4</b>	82.8
Grade (%)	<b>66.9</b>	69.2
Metal in Concentrates		
Zinc (tonnes)	<b>11,422</b>	11,908
Lead (tonnes)	<b>2,685</b>	2,220
Silver (ounces)	<b>398,785</b>	495,574
Minesite Operating Costs		
Per tonne milled (US\$)	<b>\$29.70</b>	\$30.06
Total Cash Costs		
Per lb. Payable zinc (US\$)	<b>\$0.29</b>	\$0.30

### *El Toqui Mine*

At the El Toqui mine, production of zinc in concentrate decreased by 2 percent in the first quarter of 2003 from the first quarter of 2002 while the total cash cost was US\$0.36 per pound of payable zinc compared with US\$0.32. The principal reasons for the increased unit costs were the drop in the zinc and gold head grades and the increased tonnes mined and milled. As well, construction of the new crushing system necessitates the temporary use of a portable crusher, which added approximately US\$1 per tonne to minesite operating costs. The new crusher will be commissioned during the second quarter of 2003 and costs for crushing will be reduced.

	First Quarter	
	2003	2002
Ore Milled (tonnes)	<b>109,163</b>	103,598
Zinc (%)	<b>8.4</b>	9.1
Gold (g/t)	<b>0.3</b>	0.8
Concentrate Production		
Zinc (tonnes)	<b>16,522</b>	17,176
Recovery (%)	<b>92.3</b>	92.0
Grade (%)	<b>51.5</b>	50.8
Gold (tonnes)	<b>848</b>	1,181
Recovery (%)	<b>34.1</b>	48.2
Grade (g/t)	<b>13.1</b>	33.9
Metal in Concentrates		
Zinc (tonnes)	<b>8,509</b>	8,720
Gold (ounces)	<b>588</b>	1,287
Silver (ounces)	<b>57,158</b>	78,216
Minesite Operating Costs		
Per tonne milled (US\$)	<b>\$27.41</b>	\$26.33
Total Cash Costs		
Per lb. Payable zinc (US\$)	<b>\$0.36</b>	\$0.32

Development work to access the Aserradero area, continued during the quarter. Production is expected from this higher grade gold area during the second half of 2003.

Construction of a new crushing system began during the first quarter and is expected to be completed during the second quarter of 2003. The new crushing plant will have much greater capacity than the existing facility and will provide for a 25 percent plant capacity increase as well as increase operator efficiency.

Exploration work for the quarter focussed on geological mapping and soil sample collection in the area immediately east of the Toqui mine.

### *Langlois Mine*

On February 12, 2003, the Company announced preliminary in-fill drilling results from the 7,935-metre drill program currently underway at the Langlois mine. The objective of this program is to further delineate and upgrade resources to reserves in Zone 97, both above 6 level and below 13 level.

Once the present drill program is complete, SRK will update the feasibility study to include any new mineral reserves. Management expects the study will be completed during the second quarter of 2003.

### *Lapa Property, Quebec*

On April 24, 2003, the Company announced that Agnico-Eagle Mines Limited has agreed to purchase 100 percent of Breakwater's Tonawanda and Zulapa gold properties, known collectively as the Lapa property, subject to the completion of a definitive legal agreement.

Agnico-Eagle will pay Breakwater US\$7.925 million for Breakwater's interest in the Lapa property. Breakwater will retain a 1 percent net smelter royalty ("NSR") on all gold production from the Tonawanda property and a 0.5 percent NSR on all gold production from the Zulapa property. Agnico-Eagle will also pay a non-refundable advance royalty of US\$1 million on closing and a further non-refundable advance royalty of US\$1 million when the total published inferred resources reach 2 million ounces of gold on the Zulapa and Tonawanda properties.

In addition to the Lapa property, Agnico-Eagle has purchased Breakwater's 66 2/3 percent interest in the Chibex South property, located four kilometres south of the Lapa property in Cadillac Township. Agnico-Eagle will pay Breakwater US\$75,000 for the property as well as a 0.66 percent NSR.

The Lapa and Chibex South properties are considered by Breakwater to be non-core assets.

## **Outlook**

Production in the first quarter from Breakwater's four operating mines is on schedule to produce the 2003 yearly target of 325 million pounds of zinc. Total cash costs were US\$0.31 per pound of payable zinc during the first three months of 2003 compared with the Company's forecasted annual total cash costs of US\$0.32 as published in the Company's annual report.

The price of zinc is the prime determinant of the Company's earnings and cash flow. Each US\$0.01 per pound increase in the price of zinc will increase 2003 earnings and cash flow by \$4.2 million based on the 2003 annual production forecast. Recent announcements of production cutbacks and mine closures due to the low zinc price have produced a shortfall in zinc concentrates resulting in lower treatment charges. In addition, the recent weakness in the US dollar is placing financial pressure on smelters. These two factors should eventually lead to a reduction in zinc output and, combined with a recovery in the economy, should result in an increased price of zinc in the latter half of 2003.

# Consolidated Balance Sheets

Breakwater Resources Ltd.  
As at March 31, 2003 and December 31, 2002  
(Expressed in thousands of Canadian dollars)

	March 31, 2003 (Unaudited)	December 31, 2002
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 5,845	\$ 6,435
Accounts receivable - concentrate	5,213	17,061
Other receivables	5,691	6,921
Concentrate inventory	25,749	25,340
Materials and supplies inventory	26,912	28,967
Prepaid expenses and other current assets	3,496	2,387
	<b>72,906</b>	87,111
<b>Reclamation Deposits</b>	<b>1,462</b>	1,387
<b>Mineral Properties and Fixed Assets</b>	<b>126,925</b>	134,882
	<b>\$ 201,293</b>	<b>\$ 223,380</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 22,039	\$ 25,577
Provisional payments for concentrate inventory shipped and not priced	4,221	8,642
Short-term debt including current portion of long-term debt (note 2)	70,106	30,227
Income and mining taxes payable	249	381
	<b>96,615</b>	64,827
<b>Long-term Debt</b> (note 3)	<b>1,396</b>	48,438
<b>Reclamation and Closure Cost Accruals</b>	<b>13,833</b>	13,697
<b>Future Tax Liabilities</b>	<b>888</b>	822
	<b>112,732</b>	127,784
<b>Shareholders' Equity</b>		
Capital stock (note 4)	258,481	257,759
Common shares to be issued	-	618
Contributed surplus	1,582	1,582
Deficit	(178,786)	(178,855)
Cumulative translation adjustments	7,284	14,492
	<b>88,561</b>	95,596
	<b>\$ 201,293</b>	<b>\$ 223,380</b>

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

# Consolidated Statements of Operations and Deficit

Breakwater Resources Ltd.

For the periods ended March 31, 2003 and 2002

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

(Unaudited)

	Three Months Ended March 31,	
	2003	2002
Gross sales revenue	\$ 52,910	\$ 64,517
Treatment and marketing costs	22,432	31,289
Net revenue	<b>30,478</b>	33,228
<b>Operating Costs</b>		
Direct operating costs	26,214	25,676
Depreciation and depletion	6,030	6,618
Reclamation and closure costs	589	1,132
	<b>32,833</b>	33,426
<b>Loss from Mining Activities</b>	<b>(2,355)</b>	(198)
<b>Other Expenses (Income)</b>		
General and administrative	1,306	1,279
Interest and financing	703	1,115
Investment and other income	(29)	(168)
Foreign exchange (gain) loss on US dollar denominated debt	(5,029)	25
	<b>(3,049)</b>	2,251
<b>Earnings (Loss) Before the Following:</b>	<b>694</b>	(2,449)
Other non-producing property costs	583	477
Income and mining taxes	42	345
	<b>625</b>	822
<b>Net Earnings (Loss)</b>	<b>69</b>	(3,271)
<b>Deficit - Beginning of Period</b>	<b>(178,855)</b>	(158,968)
<b>Deficit - End of Period</b>	<b>\$ (178,786)</b>	\$ (162,239)
<b>Earnings (Loss) per Share - Basic</b> (note 5)	<b>\$ 0.00</b>	\$ (0.03)
<b>Diluted Earnings per Common Share</b> (note 5)	<b>\$ 0.00</b>	\$ N/A
<b>Weighted Average Number of Common Shares Outstanding after Bonus Element</b> (note 5)	<b>195,509,000</b>	101,498,000

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

# Consolidated Statements of Cash Flows

Breakwater Resources Ltd.

For the periods ended March 31, 2003 and 2002

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

(Unaudited)

	Three Months Ended March 31,	
	2003	2002
<b>Cash Provided from (Used for)</b>		
<b>Operating Activities</b>		
Net earnings (loss)	\$ 69	\$ (3,271)
Non-cash items:		
Depreciation and depletion	6,030	6,618
Foreign exchange (gain) loss on US dollar denominated debt and other non-cash items	(5,116)	26
Future income taxes	66	-
Reclamation and closure cost accruals	589	1,132
	<b>1,638</b>	4,505
Payment of reclamation and closure costs	(1,205)	(380)
Changes in non-cash working capital items (note 7)	4,142	(16,193)
	<b>4,575</b>	(12,068)
<b>Financing Activities</b>		
Issue of common shares for cash (note 4)	54	133
(Decrease) increase in debt	(1,880)	13,977
	<b>(1,826)</b>	14,110
<b>Investing Activities</b>		
Reclamation deposits	(75)	-
Mineral properties and fixed assets	(3,264)	(2,297)
	<b>(3,339)</b>	(2,297)
<b>Decrease in Cash</b>	<b>(590)</b>	(255)
<b>Cash and Cash Equivalents - Beginning of Period</b>	<b>6,435</b>	3,305
<b>Cash and Cash Equivalents - End of Period</b>	<b>\$ 5,845</b>	<b>\$ 3,050</b>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for:		
Interest	\$ 743	\$ 851
Income and mining taxes	\$ 108	\$ -

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

# Notes to the Consolidated Financial Statements

## Breakwater Resources Ltd. For the periods ended March 31, 2003 and 2002

(Unaudited)

### 1. Accounting Policies and Basis of Presentation

#### *Basis of Presentation*

These interim consolidated financial statements of Breakwater Resources Ltd. (the "Company") for the three months ended March 31, 2003 and 2002 have been presented using accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and be able to realize its assets and satisfy its liabilities in the normal course of business.

Management of the Company has reviewed the Company's working capital requirements for the period ending December 31, 2003. The review was based on operating plans believed to be achievable assuming that there is a modest recovery in the price of zinc to US\$800 per tonne. Based upon these assumptions and the estimated operating cash flow, capital expenditures and debt servicing requirements of the Company, it is estimated that the Company will be able to meet its cash requirements until December 31, 2003.

The Company believes that it will not be able to repay its debt under the Syndicated Credit Facilities on maturity on January 2, 2004, unless metal prices recover. Accordingly, the Company believes that it will be necessary for the Company to negotiate the extension, restructuring or replacement of the Syndicated Credit Facilities prior to their maturity on January 2, 2004.

These interim consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary, if the Company was unable to continue as a going concern.

#### *Accounting Policies*

These interim consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and follow the same accounting principles and methods of application as those disclosed in note 1 of the Company's consolidated financial statements for the year ended December 31, 2002. The accompanying interim unaudited consolidated financial statements include all adjustments that are, in the opinion of management, necessary for fair presentation. These interim consolidated financial statements do not include all disclosures required by Canadian GAAP for annual financial statements and should be read in conjunction with the Company's consolidated financial statements included in its 2002 Annual Report.

#### *New Pronouncements*

In February 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 14, Disclosure of Guarantees ("AcG-14"). AcG-14 requires disclosure for certain contracts or obligation that meet the definition of a guarantee. For the three months ended March 31, 2003, the Company had no contracts or obligations that qualified as a guarantee under AcG-14.

#### *2002 Figures*

Certain of the 2002 figures have been reclassified to conform to the 2003 presentation.

### 2. Short-term Debt

<i>(\$000's)</i>	<i>March 31, 2003</i>	<i>December 31, 2002</i>
Syndicated Credit Facility		
- Revolver	21,746	25,195
- Term Credit Facility, current portion (note 3)	33,252	-
- Supplemental Term Credit Facility, current portion (note 3)	9,550	-
Customer prepayments for zinc concentrate	2,939	3,159
Other	2,619	1,873
	<u>70,106</u>	<u>30,227</u>

Under the refinancing agreement as described in note 6 of the Company's consolidated financial statements for the year ended December 31, 2002, the Syndicated Credit Facility is repayable on January 2, 2004.

### 3. Long-term Debt

<i>(\$000's)</i>	<i>March 31, 2003</i>	<i>December 31, 2002</i>
Term Credit Facility (note 2)	-	35,748
Supplemental Term Facility (note 2)	-	10,267
Reimbursable government assistance, discounted at rate of 8%	1,396	1,390
Customer prepayments for zinc concentrates	-	3,159
Other	-	1,033
Total	1,396	51,597
Less current portion	-	3,159
	<u>1,396</u>	<u>48,438</u>

### 4. Capital Stock and Stock Options

#### *(a) Common Shares*

<i>(000's)</i>	<i>Number of Shares</i>	<i>Amount</i>
As at December 31, 2002	193,281	\$ 257,759
Shares issued as supplementary payment to employee (see <i>(i)</i> below)	2,565	618
Employee share bonus plan (see <i>(ii)</i> below)	200	50
Employee share purchase plan	451	54
As at March 31, 2003	<u>196,497</u>	<u>258,481</u>

*(i)* Under an agreement dated November 30, 2001, relating to the resignation of an executive, the Company agreed to pay the executive a supplementary amount of up to \$700,000 either in cash or common shares of the Company ("Common Shares"). The amount to be paid was based on a formula using the weighted average trading price for the Common Shares

for the month of January 2003. In December 2002, an amount of \$618,000 representing 2,564,887 Common Shares was recorded based on the number of shares to be issued pursuant to the formula and was shown in the Company's consolidated balance sheet as at December 31, 2002, as "Common shares to be issued" in shareholders' equity (see note 8(c)) of the Company's consolidated financial statements for the year ended December 31, 2002). Pursuant to the agreement the shares were issued in February 2003.

(ii) The Company's share bonus plan (the "Share Bonus Plan") permits Common Shares to be issued as a discretionary bonus to any director, employee (full-time or part-time), officer or consultant of the Company or any subsidiary thereof who is designated under the Share Bonus Plan from time to

time. During the three months ended March 31, 2003, the Company issued 200,000 Common Shares under the Share Bonus Plan.

b) Options transactions were as follows:

	Options (000's)	Weighted-Average Exercise Price
As at December 31, 2002	8,796	\$1.31
Granted	1,025	0.25
Cancelled	(82)	4.28
As at March 31, 2003	9,739	\$1.18

The following table summarizes the information about the share options outstanding at March 31, 2003.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as at Mar. 31, 2003 (000's)	Weighted- Average Remaining Contractual Life	Weighted- Average Exercise Price	Number Exercisable as at Mar. 31, 2003 (000's)	Weighted- Average Exercise Price
\$0.18 - \$0.19	3,685	9 years 157 days	\$0.19	1,228	\$0.19
\$0.20 - \$2.00	3,631	6 years 26 days	\$0.66	3,072	\$0.70
\$2.05 - \$3.35	1,511	4 years 138 days	\$2.92	1,511	\$2.92
\$3.75 - \$8.20	912	6 years 179 days	\$4.35	912	\$4.35

c) The Company's share option plan is disclosed in note 8(e) of the Company's consolidated financial statements for the year ended December 31, 2002. The Company has elected not to use the fair value method of accounting and does not recognize compensation expense for its stock-based compensation plan for employees. Had compensation expense for the stock-based compensation plan for employees been determined based upon the fair value of awards granted on or after January 1, 2002, the Company's net earnings for the three months ended March 31, 2003 would have decreased by \$68,000 and for the three months ended March 31, 2002 the net loss would have increased by \$46,000. However, the earnings per share for the three months ended March 31, 2003 and the loss per share for the three months ended March 31, 2002 would have been unchanged.

The fair value of each option grant is estimated on the balance sheet date using Black-Scholes option-pricing model with the following weighted-average assumptions:

Expected life (years)	1 - 10
Risk free interest rate	4.83%
Expected volatility	48%
Dividend yield	0%

## 5. Earnings (Loss) per Share

Earnings (Loss) per Share ("EPS") has been calculated using the weighted-average number of shares outstanding during the period. The diluted EPS gives effect to the exercise of all outstanding stock and compensation options. Diluted earnings per Common Share data is not presented for 2002, as the exercise of options would not have been dilutive in 2002.

The calculation of diluted earnings per share 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 share as the effect is anti-dilutive. The average quoted market price of the Common Shares during the three months ended March 31, 2003 was \$0.22 (2002 - \$0.31).

(000's)	Three months ended March 31,	
	2003	2002
Weighted-average number of Common Shares outstanding (including bonus element on rights issue)	195,509	101,498
Incremental Common Shares on assumed exercise of options and warrants	3,285	-
Weighted-average number of Common Shares used for diluted earnings per share	198,794	101,498

On May 1, 2002, the Company completed a rights issue with an exercise price of \$0.20 per share. The market value of the Common Shares on April 2, 2002, the day prior to trading ex-rights was \$0.37 per share. As a result of the bonus element in the rights issue, the basic earnings (loss) per share and the weighted-average number of Common Shares outstanding have been adjusted retroactively as follows:

(000's)	Three months ended March 31,	
	2003	2002
Earnings (Loss) per share		
- before bonus element	\$0.00	(\$0.03)
Earnings (Loss) per share		
- after bonus element	\$0.00	(\$0.03)
Diluted earnings per share		
- before bonus element	\$0.00	N/A
Diluted earnings per share		
- after bonus element	\$0.00	N/A
Weighted-average number of shares outstanding	195,509	94,455
Additional shares due to bonus element	-	7,043
Weighted-average number of shares outstanding after bonus element	195,509	101,498

## 6. Segment Information

### For the Three Months Ended March 31, 2003

(\$'000's) (Unaudited)

Geographic location	Latin America			Canada					Tunisia	Corporate and Other	Consolidated
	El Mochito Mine	El Toqui Mine	Total	Nanisivik Mine	Caribou Mine	Bouchard-Hébert Mine	Langlois Mine	Total	Bougrine Mine		
Net revenue	8,206	4,266	12,472	2,287	–	12,950	–	15,237	2,769	–	30,478
Depreciation and depletion	(1,145)	(546)	(1,691)	–	–	(2,307)	–	(2,307)	(1,962)	(70)	(6,030)
Reclamation and closure costs	(189)	(107)	(296)	–	–	(202)	–	(202)	(91)	–	(589)
(Loss) contribution from mining activities	(382)	(115)	(497)	(383)	–	416	–	33	(1,821)	(70)	(2,355)
General and administrative	–	–	–	–	–	–	–	–	–	(1,306)	(1,306)
Interest and financing	–	–	–	–	–	–	–	–	–	(703)	(703)
Investment and other income	–	–	–	–	–	–	–	–	–	29	29
Foreign exchange gain	–	–	–	–	–	–	–	–	–	5,029	5,029
Other non-producing property costs	–	–	–	(141)	(445)	–	(21)	(607)	–	24	(583)
Income and mining taxes	(34)	–	(34)	–	–	(66)	1	(65)	157	(100)	(42)
Net earnings (loss)	(416)	(115)	(531)	(524)	(445)	350	(20)	(639)	(1,664)	2,903	69
Capital expenditures	152	1,556	1,708	(19)	–	–	490	471	362	723	3,264
Identifiable assets	37,102	33,104	70,206	11,294	3,534	26,886	39,383	81,097	33,789	16,201	201,293

#### Information about major customers

Of the Company's total consolidated net revenue in the three months ended March 31, 2003, revenue from one customer of \$12,454,000 was from the Bouchard-Hébert Mine and revenue from another customer of \$3,505,000 consisted of \$2,057,000 from the El Toqui Mine and \$1,448,000 from the Bougrine Mine.

### For the Three Months Ended March 31, 2002

(\$'000's) (Unaudited)

Geographic location	Latin America			Canada					Tunisia	Corporate and Other	Consolidated
	El Mochito Mine	El Toqui Mine	Total	Nanisivik Mine	Caribou Mine	Bouchard-Hébert Mine	Langlois Mine	Total	Bougrine Mine		
Net revenue	8,812	4,392	13,204	2,730	–	11,304	–	14,034	5,990	–	33,228
Depreciation and depletion	(1,589)	(667)	(2,256)	(853)	–	(1,641)	–	(2,494)	(1,862)	(6)	(6,618)
Reclamation and closure costs	(231)	(17)	(248)	(104)	–	(590)	–	(694)	(190)	–	(1,132)
(Loss) contribution from mining activities	(650)	(942)	(1,592)	1,066	–	1,097	–	2,163	(763)	(6)	(198)
General and administrative	–	–	–	–	–	–	–	–	–	(1,279)	(1,279)
Interest and financing	–	–	–	–	–	–	–	–	–	(1,115)	(1,115)
Investment and other income	–	–	–	–	–	–	–	–	–	168	168
Foreign exchange loss	–	–	–	–	–	–	–	–	–	(25)	(25)
Other non-producing property costs	–	–	–	–	(412)	–	(41)	(453)	–	(24)	(477)
Income and mining taxes	(12)	–	(12)	(2)	–	(136)	2	(136)	(73)	(124)	(345)
Net (loss) earnings	(662)	(942)	(1,604)	1,064	(412)	961	(39)	1,574	(836)	(2,405)	(3,271)
Capital expenditures	218	207	425	6	–	638	211	855	766	251	2,297
Identifiable assets	49,179	32,300	81,479	40,826	3,892	34,641	38,329	117,688	42,483	12,465	254,115

#### Information about major customers

Of the Company's total consolidated net revenue in the three months ended March 31, 2002, revenue from one customer of \$9,222,000 consisted of \$7,486,000 from the Bouchard-Hébert Mine and \$1,736,000 from the El Mochito Mine, revenue from another customer of \$3,598,000 consisted of \$2,174,000 from the El Toqui Mine and \$1,424,000 from the Bougrine Mine and revenue from a third customer of \$3,500,000 consisted of \$2,238,000 from the El Mochito Mine and \$1,262,000 from the Bougrine Mine.

## 7. Analysis of Changes in Non-Cash Working Capital Items

(\$000's)	Three months ended March 31,	
	2003	2002
Accounts receivable – concentrate	10,767	(172)
Other receivables	1,230	376
Concentrate and supplies inventory	(613)	(5,640)
Prepaid expenses and other current assets	(1,211)	(1,640)
Accounts payable and accrued liabilities	(1,641)	(8,324)
Provisional payments for concentrate inventory shipped and not priced	(4,258)	(1,218)
Income and mining taxes payable	(132)	425
	4,142	(16,193)

## 8. Subsequent Events

On April 24, 2003, the Company announced the sale of the Company's Tonawanda and Zulapa gold properties (the "Lapa property"), subject to the completion of a definitive agreement.

The sale price is US\$7,925,000 plus a US\$1,000,000 non-refundable advance royalty payable on closing and a further non-refundable advance royalty of US\$1,000,000 when the total published inferred resources reach two million ounces of gold.

The Company will retain a 1.0 percent net smelter royalty ("NSR") on all gold production from the Tonawanda property and a 0.5 percent NSR on all gold production from the Zulapa property.

The Company also sold its 66 2/3 percent interest in the Chibex South property, located four kilometres south of the Lapa property in Cadillac Township. The sale price is US\$75,000 plus a 0.66 percent NSR.

The sale of these properties will result in the recognition of a gain on disposal of approximately \$11,600,000 during the second quarter of 2003. An additional gain of US\$1,000,000 will be recognized should the inferred resources reach two million ounces of gold.

# Management and Corporate Information

### Directors

Colin K. Benner†

Gordon F. Bub

Donald K. Charter°

Jonathan C. Goodman\*

Garth A. C. MacRae†

Allen J. Palmiere\*°

A. Murray Sinclair, Jr.\*°

\* Member of Audit Committee

° Member of Compensation Committee

† Member of Hedging Committee

### Officers

Garth A. C. MacRae  
*Chairman*

Colin K. Benner  
*President and  
Chief Executive Officer*

René R. Galipeau†  
*Executive Vice President and  
Chief Financial Officer*

John D. Bracale  
*Vice President,  
Latin America and Corporate  
Logistics*

J. Steven Hayes  
*Vice President, Marketing*

William M. Heath  
*Vice President, Administration*

Norman L. Calder  
*Treasurer*

Leroy A. Fong  
*Controller*

E. Ann Wilkinson  
*Corporate Secretary*

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### Shares Traded

The Toronto Stock  
Exchange  
Symbol - BWR



BREAKWATER RESOURCES LTD.