

## First Quarter Report 2007

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

This management's discussion and analysis of financial condition and results of operations ("MD&A") of Breakwater Resources Ltd. (the "Company") should be read in conjunction with the Company's unaudited consolidated financial statements for the three months ended March 31, 2007, and related notes thereto which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). This MD&A should also be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006 and related annual management's discussion and analysis, and the Annual Information Form/Form 40-F on file with the Canadian provincial securities regulatory authorities and the U.S. Securities and Exchange Commission, as applicable. Unless otherwise indicated, this MD&A has been prepared as of May 3, 2007. The reporting currency is Canadian dollars and all amounts disclosed are in Canadian dollars unless otherwise indicated. Unless the context indicates otherwise, a reference to the "Company" in this MD&A means Breakwater Resources Ltd. and its subsidiaries and other entities owned or controlled, directly or indirectly, by the Company.

The Company is a mining, exploration and development company which produces and sells zinc, copper, lead and gold concentrates to customers around the world. The Company's concentrate production is derived from mines located in Canada, Chile and Honduras.

### HIGHLIGHTS

- The Company realized net earnings of \$15.3 million or \$0.04 per share in the first quarter of 2007 after recording an income tax provision of \$7.2 million (\$0.02 per share) compared with \$38.3 million or \$0.10 per share after recording an income tax recovery of \$25.7 million (\$0.07 per share) in the first quarter of 2006. The 2006 recovery was primarily due to the establishment of a \$27.2 million future tax recovery for the Myra Falls mine
- Sales of concentrate in the first quarter of 2007 decreased to 39,333 tonnes from 67,355 in the first quarter of 2006. The decrease was primarily due to 19,381 more tonnes of concentrate in inventory at the beginning of the first quarter of 2006 compared with the first quarter of 2007
- At March 31, 2007, cash and cash equivalents were \$93.2 million and total debt was \$2.9 million
- Gross sales revenue decreased by 3% to \$77.9 million in the first quarter of 2007 from \$80.7 million in the first quarter of 2006 because of lower sales partially offset by higher prices
- Total cash costs per pound of payable zinc decreased to US\$0.49 per pound in the first quarter of 2007 from US\$0.63 per pound in the first quarter of 2006. See the non-GAAP reconciliation section in this MD&A

### OUTLOOK

- Development of the Langlois mine is on track to achieve commercial production by mid-2007. Langlois is currently in pre-production and as a result, sales of concentrate produced are not reflected in the income statement
- The Concordia deposit at the El Toqui mine remains on track with production expected in the second half of 2007
- The Company expects to meet its payable metals forecast for 2007

## STATEMENT OF OPERATIONS REVIEW – THREE MONTHS ENDED MARCH 31, 2007 AND 2006

The Langlois mine has been producing concentrate since November 2006; however, since it has not achieved commercial production, sales of concentrate and their associated costs are not being recognized in the income statement.

### Gross Sales Revenue

Gross sales revenue from the sale of zinc, copper, lead, and gold concentrates for the three month period ended March 31, 2007 (the “first quarter of 2007”) decreased by \$2.7 million (3%) compared with the three month period ended March 31, 2006 (the “first quarter of 2006”). Concentrate sales decreased 42% to 39,333 tonnes in 2007 compared with 67,355 tonnes in 2006. The decrease was primarily due to much higher inventory levels at the beginning of 2006 (19,381 more tonnes at December 31, 2005 than December 31, 2006) resulting in lower concentrate sales at Myra Falls and El Mochito partially offset by higher concentrate sales at El Toqui. Partially offsetting the lower concentrate sales were significantly higher realized prices for all metals sold.

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

<b>Gross Sales Revenue by Metal</b> <i>(\$ millions)</i>	<b>First Quarter</b> <b>2007</b>	First Quarter 2006
Zinc (US\$)	<b>42.7</b>	62.4
Copper (US\$)	<b>7.6</b>	0.0
Lead (US\$)	<b>3.5</b>	2.7
Gold (US\$)	<b>7.7</b>	3.7
Silver (US\$)	<b>5.2</b>	2.4
Hedging mark-to-market and other	<b>0.0</b>	(1.4)
<b>Total gross sales revenue (US\$)</b>	<b>66.7</b>	69.8
C\$/US\$ realized exchange rate	<b>1.1683</b>	1.1559
<b>Total gross sales revenue (C\$)</b>	<b>77.9</b>	80.7

<b>Sales by Concentrate</b> <i>(tonnes)</i>	<b>First Quarter</b> <b>2007</b>	First Quarter 2006
Zinc	<b>30,056</b>	63,571
Copper	<b>5,651</b>	0
Lead	<b>2,800</b>	3,300
Gold	<b>826</b>	484
<b>Total</b>	<b>39,333</b>	67,355

<b>Sales by Payable Metal</b>	<b>First Quarter</b> <b>2007</b>	First Quarter 2006
Zinc (tonnes)	<b>12,555</b>	28,093
Copper (tonnes)	<b>1,184</b>	0
Lead (tonnes)	<b>1,815</b>	2,107
Gold (ounces)	<b>11,302</b>	9,420
Silver (ounces)	<b>373,529</b>	329,089

<b>Realized Prices</b>	<b>First Quarter</b> <b>2007</b>	First Quarter 2006
Zinc (US\$/tonne)	<b>3,434</b>	2,221
Copper (US\$/tonne)	<b>6,452</b>	0
Lead (US\$/tonne)	<b>1,914</b>	1,277
Gold (US\$/ounce)	<b>647</b>	388
Silver (US\$/ounce)	<b>13.03</b>	7.40

Average Metal Prices & Foreign Exchange Rate	First Quarter 2007	First Quarter 2006
Zinc (US\$/tonne)	3,456	2,248
Copper (US\$/tonne)	5,930	4,943
Lead (US\$/tonne)	1,785	1,239
Gold (US\$/ounce)	650	554
Silver (US\$/ounce)	13.31	9.74
C\$/US\$ exchange rate	1.1716	1.1547

The Company has a conservative revenue recognition policy which, among other things, requires final pricing of concentrate inventories prior to recognition of revenue. Using commodity prices and exchange rates prevailing at March 31, 2007, the following schedule provides details regarding inventories shipped but not recognized for revenue purposes and the related provisional payments. Estimated net smelter return, earnings before taxes and weighted-average months to settlement are non-GAAP measures and are furnished to provide additional information.

	Concentrate (DMT)	Net smelter return (\$'000's)	Inventory value (\$'000's)	Earnings before taxes (\$'000's)	Provisional payments (\$'000's)	Weighted-average months to settlement
Zinc	30,815	35,329	17,928	17,401	18,395	1.3
Copper	4,950	12,538	7,834	4,704	–	3.0
Lead	4,728	10,066	2,186	7,880	5,711	1.0
Gold	466	1,545	515	1,030	1,654	1.0
	40,959	59,478	28,463	31,015	25,760	

As at March 31, 2006, the Company estimated that inventories shipped but not recognized for revenue purposes had earnings before tax of \$20.2 million consisting of \$53.7 million of net smelter return less \$33.5 million of inventory value.

## Net Revenue

Net revenue, the value of concentrates sold after deducting treatment charges and freight and marketing costs, increased by 4% to \$58.0 million in the first quarter of 2007 from \$55.8 million in the first quarter of 2006. Treatment and marketing costs were 20% lower at \$19.9 million in the first quarter of 2007 compared with \$24.8 million in the first quarter of 2006. On a per tonne of concentrate sold basis, total treatment and marketing costs increased to \$506 per tonne in the first quarter of 2007 compared with \$369 per tonne in the first quarter of 2006 primarily due to higher metal prices triggering price escalators in the treatment charges partially offset by certain spot sales which did not have any escalators.

## Direct Operating Costs

Direct operating costs were 18% lower in the first quarter of 2007 at \$23.6 million compared with \$28.8 million in the first quarter of 2006, as 42% fewer tonnes of concentrate were sold and the average direct operating cost per tonne of concentrate sold increased to \$600 in the first quarter of 2007 from \$428 in the first quarter of 2006. Average direct operating costs per tonne sold are impacted by the type of concentrate sold and the volume of concentrate sales relative to fixed costs. The Myra Falls and Toqui mines sold proportionately higher copper and gold concentrates respectively in the first quarter of 2007 compared with the first quarter of 2006 with their relatively higher costs per tonne compared with zinc concentrate. Significantly lower concentrate sales at Myra Falls and El Mochito resulted in fixed costs being spread over fewer tonnes. El Mochito was also impacted by higher export taxes due to higher metal prices in the first quarter of 2007 compared with the same period in 2006.

## Direct Operating Costs

	First Quarter 2007			First Quarter 2006		
Aggregate (\$ millions)	Concentrate sold (tonnes)	Cost per tonne (\$)	Aggregate (\$ millions)	Concentrate sold (tonnes)	Cost per tonne (\$)	
Myra Falls	10.6	7,763	1,357	17.9	537	
El Mochito	4.8	12,123	398	7.9	320	
El Toqui	8.2	19,447	423	3.0	323	
<b>Total</b>	<b>23.6</b>	<b>39,333</b>	<b>600</b>	<b>28.8</b>	<b>428</b>	

## **Total Cash Cost per Pound of Payable Zinc Sold**

The total cash cost per pound of payable zinc sold, which includes all mine site cash costs, treatment charges, ocean freight and other marketing costs, net of by-product credits, was US\$0.49 in the first quarter of 2007 compared with US\$0.63 in first quarter of 2006 (see non-GAAP reconciliation). The decrease was primarily due to higher by-product credits and reduced aggregate direct operating costs at Myra Falls and El Mochito due to lower concentrate sales partially offset by lower pounds of zinc sold, unfavourable movements in treatment and marketing costs and aggregate direct operating costs at El Toqui.

## **Depreciation and Depletion**

Depreciation and depletion decreased by \$0.9 million to \$4.1 million in the first quarter of 2007 compared with the corresponding period in 2006 primarily due to the impact of lower concentrate sales for assets depreciated and depleted using the units-of-production method.

## **Other Expenses (Income)**

Other expenses (income) in the first quarter of 2007 decreased by \$0.9 million compared with the corresponding 2006 period primarily due to a 2006 loss on gold loan of \$1.1 million which did not recur in 2007 partially offset by a \$0.4 million increase in general and administrative expenses.

## **Exploration Expenses**

Exploration expenses of \$2.7 million in the first quarter of 2007 increased by \$1.1 million from the corresponding period in 2006. The increase was due to expanded exploration programmes at El Toqui, Myra Falls and El Mochito partially offset by decreased expenses at Bouchard-Hébert and Bougrine. The increased expenditures reflect further delineation of recently identified exploration successes as well as a continued strategic effort to address past underinvestment in exploration of the Company's assets.

## **Other Non-Producing Property Costs**

Other non-producing property costs include care and maintenance costs, holding costs, settlement costs and other costs associated with non-producing properties net of proceeds received from those properties related to property options sold and assets sold. Other non-producing property costs in the first quarter of 2007 decreased by \$1.6 million compared with the corresponding 2006 period primarily due to \$1.8 million of costs incurred at the Caribou mine prior to its sale in August 2006.

## **Income and Mining Tax Provision (Recovery)**

Income and mining tax provision in the first quarter of 2007 was \$7.2 million compared with a recovery of \$25.7 million in the first quarter of 2006. The \$32.9 million change was primarily due to the recognition of \$29.3 million of tax recoveries at Myra Falls and other properties in 2006 compared with tax provisions of \$2.0 million and \$1.7 million at El Toqui and Myra Falls respectively in the first quarter of 2007.

## **LIQUIDITY AND FINANCIAL POSITION REVIEW**

### **Working Capital**

Working capital as at March 31, 2007 was \$116.6 million compared with \$109.9 million at December 31, 2006, an increase of \$6.7 million.

### **Current Assets**

Total current assets increased by \$11.1 million to \$208.6 million as at March 31, 2007 compared with December 31, 2006. The main components of current asset changes were as follows:

- Cash and cash equivalents increased by \$11.7 million reflecting improved cash flow generated by stronger metal prices
- Accounts receivable — concentrate decreased by \$11.5 million primarily due to a lower volume of production shipped late in the first quarter of 2007 compared with late in the fourth quarter of 2006
- Concentrate inventory increased by \$11.3 million primarily due to higher inventory levels at Myra Falls and El Mochito at March 31, 2007 compared with December 31, 2006
- The current portion of future income tax assets decreased by \$3.1 million primarily due to utilization of \$1.9 million and \$1.2 million of current future income tax assets at the Myra Falls and El Toqui mines

## Current Liabilities

Current liabilities increased by \$4.4 million to \$92.0 million as at March 31, 2007 compared with December 31, 2006. The main components of the current liabilities changes were as follows:

- Accounts payable and accrued liabilities increased by \$4.2 million primarily due to increased accounts payable at Myra Falls
- Provisional payments for concentrate inventory shipped and not priced represent payments received for concentrate shipments that were not recognized as revenue. The balance as at March 31, 2007 was \$23.4 million slightly lower than at December 31, 2006. Please refer to the table in Gross Sales Revenue section of this MD&A for additional details
- Income and mining taxes payable increased by \$1.5 million primarily due to tax provisions established in the first quarter of 2007 at El Mochito

## Long-term Investments

As at March 31, 2007, long-term investments were \$34.3 million an increased of \$19.6 million from \$14.7 million at December 31, 2006. The increase was primarily due to new accounting requirements for financial instruments and comprehensive income required by the Canadian Institute of Chartered Accountants ("CICA") and adopted by the Company on January 1, 2007. Please refer to note 2 of the Company's unaudited consolidated financial statements for the period ended March 31, 2007.

## Restricted Promissory Note

The Company held two restricted promissory notes at the end of March 31, 2007 and December 31, 2006 of \$62.3 million related to the Red Mile transactions<sup>1</sup> in 2004 and 2005. The interest earned and a portion of the principal of these restricted promissory notes will be used to meet the Company's royalty obligation.

## Royalty Obligation

The royalty obligation of \$62.5 million relates to the royalty amounts received from the 2004 and 2005 Red Mile transactions. See restricted promissory note above.

## Reclamation and Closure Cost Accrual

Reclamation and closure costs represent the Company's obligation for reclamation and severance costs accrued for its mine sites. As there is no law, regulation or contract in Honduras related to reclamation and closure costs, GAAP does not permit the Company to set up a liability for reclamation at the El Mochito mine.

At March 31, 2007, total accrued reclamation and closure costs were \$40.2 million compared with \$40.6 million at December 31, 2006. Of the \$40.2 million, \$7.5 million is classified as current and is expected to be spent over the next 12 months at Myra Falls, Bouchard-Hébert, Nanisivik and Bougrine.

### Reclamation and Closure Cost Accrual at March 31, 2007

(\$ millions)	Current	Long-term	Total
Myra Falls	2.2	25.2	27.4
El Mochito	0.0	1.6	1.6
El Toqui	0.0	3.8	3.8
Langlois	0.0	1.3	1.3
Bouchard-Hébert	2.0	0.1	2.1
Nanisivik	2.3	0.4	2.7
Bougrine	1.0	0.3	1.3
<b>Total</b>	<b>7.5</b>	<b>32.7</b>	<b>40.2</b>

The Company incurred expenditures of \$1.2 million in reclamation and closure costs in the first quarter of 2007 compared with \$1.7 million in the first quarter of 2006.

<sup>1</sup> For further information on the Red Mile transactions please see the Company's most recent Annual Report filed on SEDAR or available at the Company's website at [www.breakwater.ca](http://www.breakwater.ca).

## Future Income Tax Liabilities

As at March 31, 2007, future tax liabilities were \$10.2 million, an increase of \$3.1 million from December 31, 2006. The increase in future tax liabilities was primarily due to tax liabilities associated with adoption of new CICA accounting requirements (refer to note 2 of the unaudited consolidated financial statements) and additional mining duties taxes established for the Langlois mine.

## Shareholders' Equity

Shareholders' equity at March 31, 2007 was \$348.3 million compared with \$308.6 million at December 31, 2006. The increase of \$39.7 million was primarily due to net earnings of \$15.3 million, the exercise of warrants of \$6.2 million and the impact of adopting new accounting policies as required by the CICA of \$17.2 million.

### Shareholders' Equity

<i>(\$000's)</i>	Capital stock	Warrants	Contributed surplus	Retained earnings (deficit)	Other comprehensive income	Cumulative translation adjustments	Total shareholders' equity
As at December 31, 2006	167,093	8,561	793	139,795	–	(7,689)	308,553
Adjustment of opening balance on adoption of CICA accounting policy	–	–	–	5,706	3,804	7,689	17,199
Value ascribed to options exercised under stock-based compensation	321	–	(321)	–	–	–	0
Employee share option plan – proceeds of options exercised	537	–	–	–	–	–	537
Employee share purchase plan	60	–	–	–	–	–	60
Exercise of warrants	6,160	–	–	–	–	–	6,160
Stock-based compensation	–	–	529	–	–	–	529
Net earnings	–	–	–	15,290	–	–	15,290
<b>As at March 31, 2007</b>	<b>174,171</b>	<b>8,561</b>	<b>1,001</b>	<b>160,791</b>	<b>3,804</b>	<b>0</b>	<b>348,328</b>

In the first quarter of 2007, the Company issued the following Common Shares: 1,041,131 following the exercise of employee share options; 36,990 pursuant to the Company's employee share purchase plan; and, 30,801,410 pursuant to warrants exercised. On March 2, 2007 and March 14, 2007, Dundee Corporation ("Dundee") exercised 15,400,705 and 15,400,705 warrants respectively to purchase 30,801,410 Common Shares at \$0.20 per Common Share.

## Capital Expenditures

The Company invested \$23.7 million in mineral properties and fixed assets in the first quarter of 2007.

In the first quarter of 2007, \$9.4 million of capital expenditures at Langlois consisted primarily of \$4.7 million of underground development for Langlois, \$4.9 million of underground development, preproduction and equipment for Grevet B and \$3.2 million of equipment, buildings and infrastructure at Langlois partially offset by \$3.7 million of preproduction contribution from mining operations.

Myra Falls' capital expenditures of \$6.5 million in the first quarter of 2007 consisted primarily of \$1.6 million of mobile equipment purchases, \$1.6 million for development at Lynx 5/6, \$1.3 million of deferred development, \$0.8 million Lynx pit development and \$0.7 million for ramp development.

In the first quarter of 2007, \$3.3 million of capital expenditures at El Mochito consisted primarily of \$1.3 million repairs to the new tailings facility and upgrading and closure costs of the old tailings facility, \$0.8 million for equipment and buildings and \$0.8 million of mine development.

El Toqui capital expenditures of \$4.0 million in the first quarter of 2007 consisted primarily of \$1.6 million of development, \$0.9 million of equipment purchases, \$0.6 million of Concordia development and \$0.4 million for the intense leach reactor construction and commissioning.

## Financial Capability

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

## OPERATING REVIEW – QUARTER ENDED MARCH 31, 2007 AND 2006

(\$ millions)	Net revenue		Contribution (loss) from mining activities <sup>(1)</sup>		Depreciation, depletion, reclamation and closure costs		Capital expenditures	
	2007	2006	2007	2006	2007	2006	2007	2006
Myra Falls	14.3	28.2	2.0	7.1	1.7	3.2	6.5	3.7
El Mochito	20.9	21.5	15.1	11.8	1.0	1.8	3.3	2.1
El Toqui	22.8	10.0	12.5	6.4	2.1	0.6	4.0	1.2
Langlois <sup>(a)</sup>	0.0	0.0	0.0	0.0	0.0	0.0	9.4	2.2
Other	0.0	(3.9) <sup>(2)</sup>	(0.2)	(4.3)	0.3	0.4	0.5	0.0
<b>Total</b>	<b>58.0</b>	55.8	<b>29.4</b>	21.0	<b>5.1</b>	6.0	<b>23.7</b>	9.2

<sup>(1)</sup> After non-cash costs.

<sup>(a)</sup> First concentrate shipped November 2006.

<sup>(2)</sup> Net realised from metal hedging activities.

### Production Results

Consolidated production is set forth in the following table.

All Mines	First Quarter 2007	First Quarter 2006
Ore Milled (tonnes)	547,415	527,580
Zinc (%)	5.7	6.0
Concentrate Production (tonnes)		
Zinc	54,798	53,877
Copper	6,214	7,343
Lead	4,554	3,723
Gold	1,329	1,186
Metal in Concentrates		
Zinc (tonnes)	27,534	27,878
Copper (tonnes)	1,352	1,751
Lead (tonnes)	3,134	2,536
Silver (ounces)	819,867	670,137
Gold (ounces)	20,198	17,275

Aggregate production of zinc in concentrate in the first quarter of 2007 was 60.7 million pounds compared with 61.4 million pounds in 2006, a 1% reduction. The reduction was primarily due to lower zinc head grades and lower milled tonnes at Myra Falls and El Mochito, offset by production at Langlois.

Zinc Production (million pounds of zinc contained in concentrate)	First Quarter 2007	First Quarter 2006	%
Myra Falls	15.3	22.8	(32.9)
El Mochito	18.5	23.1	(19.9)
El Toqui	17.3	15.5	11.6
Langlois <sup>(a)</sup>	9.6	0.0	–
<b>Total zinc production</b>	<b>60.7</b>	61.4	(1.1)

<sup>(a)</sup> First concentrate shipped November 2006.

Production of copper in concentrate decreased 26% in the first quarter of 2007 from the same period in 2006 due to lower milled tonnes and lower copper grades at Myra Falls, offset by production at Langlois.

<b>Copper Production</b> <i>(million pounds of copper contained in concentrate)</i>	<b>First Quarter</b> <b>2007</b>	First Quarter 2006	%
Myra Falls	<b>2.6</b>	3.9	(33.3)
Langlois <sup>(a)</sup>	<b>0.3</b>	0.0	–
<b>Total copper production</b>	<b>2.9</b>	3.9	(25.6)

<sup>(a)</sup> First concentrate shipped November 2006.

Production of lead in concentrate increased 23% during the first quarter of 2007 due to higher lead head grades at El Mochito.

<b>Lead Production</b> <i>(million pounds of lead contained in concentrate)</i>	<b>First Quarter</b> <b>2007</b>	First Quarter 2006	%
El Mochito	<b>6.9</b>	5.6	23.2
<b>Total lead production</b>	<b>6.9</b>	5.6	23.2

Silver in concentrate increased 22%, quarter over quarter due to higher silver head grades from Myra Falls and El Mochito and the addition of production from Langlois.

<b>Silver Production</b> <i>(ounces of silver contained in concentrate)</i>	<b>First Quarter</b> <b>2007</b>	First Quarter 2006	%
Myra Falls	<b>330,150</b>	225,225	46.6
El Mochito	<b>448,386</b>	429,368	4.4
El Toqui	<b>22,246</b>	15,544	43.1
Langlois <sup>(a)</sup>	<b>19,085</b>	0	–
<b>Total silver production</b>	<b>819,867</b>	670,137	22.3

<sup>(a)</sup> First concentrate shipped November 2006.

Gold in concentrate increased due to higher gold production from Myra Falls and higher gold production from the Aserradero zone at El Toqui.

<b>Gold Production</b> <i>(ounces of gold contained in concentrate)</i>	<b>First Quarter</b> <b>2007</b>	First Quarter 2006	%
Myra Falls	<b>6,316</b>	5,977	5.7
El Toqui	<b>13,882</b>	11,298	22.9
<b>Total gold production</b>	<b>20,198</b>	17,275	16.9

## Myra Falls Production

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

	First Quarter 2007	First Quarter 2006
Ore Milled ( <i>tonnes</i> )	<b>185,396</b>	208,319
Zinc (%)	<b>4.4</b>	5.9
Copper (%)	<b>0.9</b>	1.1
Silver ( <i>g/t</i> )	<b>65</b>	44
Gold ( <i>g/t</i> )	<b>1.6</b>	1.7
Concentrate Production		
Zinc ( <i>tonnes</i> )	<b>13,699</b>	19,574
Zinc Recovery (%)	<b>85.8</b>	84.1
Zinc Grade (%)	<b>50.8</b>	52.8
Gold Recovery (%)	<b>20.6</b>	16.2
Gold Grade ( <i>g/t</i> )	<b>4.5</b>	3.0
Copper ( <i>tonnes</i> )	<b>5,402</b>	7,343
Copper Recovery (%)	<b>73.6</b>	74.5
Copper Grade (%)	<b>22.1</b>	23.9
Gold Recovery (%)	<b>44.0</b>	23.1
Gold Grade ( <i>g/t</i> )	<b>24.5</b>	11.3
Gold ( <i>tonnes</i> )	<b>0.4</b>	9.8
Recovery (%)	<b>3.0</b>	12.3
Grade ( <i>g/t</i> )	<b>6,393</b>	4,525
Metal in Concentrates		
Zinc ( <i>tonnes</i> )	<b>6,953</b>	10,335
Copper ( <i>tonnes</i> )	<b>1,193</b>	1,751
Silver ( <i>ounces</i> )	<b>330,150</b>	225,225
Gold ( <i>ounces</i> )	<b>6,316</b>	5,977
Total cash costs per lb. payable zinc sold ( <i>US\$</i> )	<b>(0.11)</b>	0.74

Production of zinc in concentrate decreased during the first quarter of 2007 compared with the same period in 2006 due to fewer milled tonnes and lower zinc grades. The lower zinc head grade was related to a higher proportion of the production coming from development headings and mining of lower grade zones in the HW deposit. Production was hindered during the first quarter of 2007 due to delays in 2006 in establishing ventilation to the Battle-Gap area which curtailed development of new mining areas.

Production of gold in concentrate was higher during the first quarter of 2007 compared with the same period in 2006. During the latter half of 2006, production of a separate high grade gravity gold product commenced and during the first quarter of 2007, further gold recovery increases were achieved. By directing the gold rich gravity stream directly into the copper flotation cleaning circuit, gold recovery increased. During the first quarter of 2007, 45.8% of the gold was recovered in high payment products, with a 67.6% overall gold recovery. During the same period in 2006, 39.5% of the gold was recovered in high payment products, with a 51.6% overall gold recovery.

During the first quarter of 2007, production from the Lynx open pit added higher grade copper to the circuit.

Copper concentrate produced continues to show reduced lead and zinc penalty content. The re-designed copper flotation circuit, commissioned mid-2006, continues to be optimized. The first quarter 2007 lead and zinc penalty decreased from the fourth quarter 2006 penalty by an additional 1.9%. During the first quarter of 2007, the lead and zinc penalty averaged 12.5%. The first quarter 2006 penalty averaged 14.4%, which included both the old and new copper circuits. In the first quarter of 2005, the lead and zinc penalty averaged 17.0%.

## Myra Falls Outlook

The ventilation raise connecting the surface ramp to the underground operation was completed in January 2007. Now that additional ventilation has been established, there will be an increase in development in the western portions of the mine which will open up more stoping areas, allowing production rates to rise. The Company has purchased an electric/hydraulic jumbo, two additional 30 tonne haulage trucks, a scooptram and a rock bolt jumbo. These pieces of equipment are expected to arrive during the second quarter of 2007.

Development of the Lynx 5 deposit continued during the first quarter of 2007 and production is expected to commence from this zone during the second quarter of 2007. Development is also proceeding on the Price deposit, with production expected later in 2007.

Underground directional drilling is planned in order to provide more information on the Marshall zone. The current limited geological information on the Marshall zone results in different interpretations of the geometry and orientation of the zone necessitating infill drilling. Marshall infill drilling was originally planned once the 24 Level development was completed in 2008. Directional drilling is expected to provide the data required to make a development decision in 2008 regarding the Marshall zone.

Myra Falls is expected to achieve its 2007 forecast for payable metal. Development in the Battle-Gap and additional equipment purchases are expected to remove production bottlenecks in the western portion of the mine.

## EI Mochito Production

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

	First Quarter 2007	First Quarter 2006
Ore Milled ( <i>tonnes</i> )	<b>155,184</b>	183,429
Zinc (%)	<b>6.0</b>	6.3
Lead (%)	<b>2.6</b>	1.7
Silver ( <i>g/t</i> )	<b>104</b>	84
Concentrate Production		
Zinc ( <i>tonnes</i> )	<b>16,348</b>	20,199
Recovery (%)	<b>89.5</b>	91.3
Grade (%)	<b>51.2</b>	52.0
Lead ( <i>tonnes</i> )	<b>4,554</b>	3,723
Recovery (%)	<b>79.1</b>	80.7
Grade (%)	<b>68.8</b>	68.1
Metal in Concentrates		
Zinc ( <i>tonnes</i> )	<b>8,378</b>	10,500
Lead ( <i>tonnes</i> )	<b>3,134</b>	2,536
Silver ( <i>ounces</i> )	<b>448,386</b>	429,368
Total cash costs per lb. payable zinc sold ( <i>US\$</i> )	<b>(0.06)</b>	0.42

As expected, milled tonnage decreased during the first quarter of 2007 compared with the same period in 2006. The focus of mining activities were on development of new production areas as well as development of exploration headings.

Production of zinc in concentrate decreased during the first quarter of 2007 compared with the same period in 2006 due to fewer milled tonnes and lower zinc grades. Production of lead in concentrate was higher during the first quarter of 2007 compared with the same period in 2006 due to higher lead head grades encountered in the Salva Vida deposit.

## EI Mochito Outlook

Recoveries of zinc and lead were slightly lower during the first quarter of 2007 due to the higher lead head grade. During the second quarter of 2007, an additional flotation cell bank will be added to the lead circuit which is expected to improve recoveries by the third quarter of 2007.

Storm damage in August 2006 necessitated a repair to the geomembrane liner of the new Soledad tailings facility which delayed commissioning into the third quarter of 2007. Once complete, Soledad is expected to have capacity for seven years at current production rates and the current tailings impoundment facility, Pozo Azul, will be reclaimed.

## El Toqui Production

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

	First Quarter 2007	First Quarter 2006
Ore Milled ( <i>tonnes</i> )	<b>129,633</b>	135,832
Zinc (%)	<b>6.7</b>	5.7
Gold ( <i>g/t</i> )	<b>4.0</b>	2.9
Concentrate Production		
Zinc ( <i>tonnes</i> )	<b>15,992</b>	14,104
Recovery (%)	<b>91.1</b>	90.6
Grade (%)	<b>49.2</b>	49.9
Gold ( <i>tonnes</i> )	<b>1,329</b>	1,176
Recovery (%)	<b>56.7</b>	68.2
Grade ( <i>g/t</i> )	<b>208.0</b>	218.8
Metal in Concentrates		
Zinc ( <i>tonnes</i> )	<b>7,868</b>	7,043
Silver ( <i>ounces</i> )	<b>22,246</b>	15,544
Gold ( <i>ounces</i> )	<b>13,881</b>	11,298
Total cash costs per lb. payable zinc sold ( <i>US\$</i> )	<b>0.86</b>	0.31

Milled tonnage decreased during the first quarter of 2007 compared with the same period in 2006 due to a planned shutdown of the ball mills for maintenance. Commissioning of the Gekko intense leach reactor has taken longer than anticipated and the first doré was produced in April 2007.

Production of zinc and gold in concentrate increased during the first quarter of 2007 compared with the same period in 2006 due to higher zinc and gold grades respectively.

During the first quarter of 2007, ramp development to access the Concordia deposit continued with a total of 725 metres of development completed to date. In addition, a 24 hole - 1,792 metre - in-fill surface drilling campaign was performed on the Concordia-North block, which hosts Zn-Pb-Ag-Cu mineralization. Development of the Concordia deposit is on schedule with production expected in the second half of 2007.

## El Toqui Outlook

During the first quarter of 2007, a total of 10,638 metres of surface exploration diamond drilling was completed on various targets at El Toqui including 3,094 metres on the Porvenir deposit to increase the indicated resources as part of an infill drilling campaign. The Porvenir deposit remains open to the north-west and south-east and the Company continues to attempt to delineate the outline of this deposit.

The Company also performed sediment sampling, geological mapping and rock sampling on other exploration targets in the first quarter of 2007.

The Company is encouraged by its exploration results and if these programs are successful in increasing the mineral reserves and resources at El Toqui, the Company will conduct a feasibility study to determine the optimal size and location of a mill to increase production throughput.

## Langlois Production

Langlois, which is situated in north-western Québec approximately 213 kilometres north of Val-d'Or, is currently being developed to reach commercial production by mid-2007.

Development drifts continue to be driven between Zone 3, Zone 4 and Zone 97 to the east on Levels 4, 9 and 13. A new ramp from surface was collared during the first quarter of 2007 which is expected to reach the existing Level 4 workings toward the end of the year. The new ramp will improve the overall efficiency of the operation while providing access to mine additional material in the upper portions of Zone 4 between the current mining areas and surface. The mining of this material is not included in the current mine plan and, although lower grade, is economic at current prices.

Production commenced during the fourth quarter of 2006 in Zones 3 and 4 with a total of 77,202 tonnes milled during the first quarter of 2007. The zinc head grade milled during the quarter was lower than the historic grades encountered at Langlois during operation in the late 1990s due to a higher percentage of material originating from mine development and the mining of lower grade but readily available economic material.

Production during the quarter also included the processing of the bulk sample from the Grevet B deposit, located three kilometres south-east of the Langlois mine. The metallurgical results of the Grevet B bulk sample have proven successful and accordingly, Grevet B material will be mined and milled during 2007 and 2008.

The Company currently has five diamond drills operating on the property on surface, three for exploration and two focused on the upper portion of Zone 97 for definition drilling.

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

	First Quarter
Ore Milled ( <i>tonnes</i> )	77,202
Zinc (%)	6.4
Copper (%)	0.3
Silver ( <i>g/t</i> )	27
Gold ( <i>g/t</i> )	0.2
Concentrate Production	
Zinc ( <i>tonnes</i> )	8,759
Recovery (%)	87.3
Grade (%)	49.5
Copper ( <i>tonnes</i> )	812
Recovery (%)	60.8
Grade (%)	19.6
Metal in Concentrates	
Zinc ( <i>tonnes</i> )	4,335
Copper ( <i>tonnes</i> )	159
Silver ( <i>ounces</i> )	19,085

## Langlois Outlook

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

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

For the first quarter of 2007, Zones 3 and 4 surface extensions were drilled from surface and results are promising. Economic mineralization appears to extend to the surface and consequently a new resource estimate was done for Zone 4. For Zone 3, a resource estimate from surface to 130 metres below surface will be performed during the second quarter of 2007. A surface extension of Zone 97 is currently being tested using two drill rigs and results are expected during the second quarter of 2007.

Zone 3 east extension and the centre of the body located between Level 6 and 8 were partly drilled with two underground rigs. Massive veins with economic grades were identified in this area; however, additional drilling is required in order to upgrade the inferred resources to the reserve category. Drilling of the east extension is expected to be completed and the results compiled during the second quarter of 2007.

During the first quarter of 2007, drilling of the Zone 3 east plunge extension between Level 11 and 13 on Level 13 was started with an underground drill rig. Drilling is ongoing and the economic continuity has yet to be determined. One 350 metre exploration hole from Level 13 completed in March 2007, targeted an anomaly south of Zone 3 but did not intersect any significant mineralization.

During the second quarter of 2007, Zone 2 (parallel to Zone 3 but about 20-30 metres further north) will be tested from surface. The Zone 97 west extension will also be tested from underground on Level 13 in the second quarter of 2007, targeting a promising intersection obtained in 2006 from surface drilling. The target is located about 400 metres west of the currently known Zone 97. The Zone 3 and 4 east and west extensions will be tested from underground in the second quarter of 2007.

Reinterpretation and re-modeling of all the zones will be carried out during 2007 and will incorporate forecast base metal prices, a consideration of lower cut-off grades and incorporation of all diamond drill intersections and channel samples in order to redefine the economic envelope. By the end of 2007, Langlois will have a fully integrated 3D block model with which to calculate new resource and reserve estimates.

During the first quarter of 2007, the Company continued its systematic drilling program over the Langlois property. The main focus of this drill program is to cover un-explored ground around the Langlois mining leases, both with geological logging and geophysical probing with new technologies such as InfiniTEM®.

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

### **Virginia Mines Inc. – Coulon Project**

In the first quarter of 2007, Virginia Mines Inc. ("Virginia") began a new campaign on the Coulon project, located in the James Bay region of Québec. In accordance with an agreement entered into in May 2006, the Company has the option to acquire a 50% interest in the Coulon property in return for \$6.5 million in exploration expenditures and cash payments totalling \$180,000 over an 8-year period. Virginia is conducting geophysical surveying and diamond drilling. Mobilization of a second drill rig is scheduled early in the second quarter of 2007 in order to accelerate the exploration work. Both rigs will focus on delineating additional resources within known lenses, as well as exploring new drill targets. The geophysical surveys consist of expanding the ground InfiniTEM® coverage to the south of Lens 43 as well as conducting Max-Min® surveys over the 2006 heliborne EM targets.

### **Other Properties**

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

## NON-GAAP RECONCILIATION

Total cash costs per pound of payable zinc sold is furnished to provide additional information and is a non-GAAP measure. This measure should not be considered in isolation as a substitute for measures of performance prepared in accordance with GAAP and is not necessarily indicative of cash provided from operating activities or operating expenses as determined under GAAP. This measure is intended to provide investors with information about the cash generating capabilities of the Company's operating activities in a given period which is the same purpose for which the Company uses this information. This MD&A and the unaudited consolidated interim financial statements of the Company for the period ended March 31, 2007 discuss the components not included in this non-GAAP measure.

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

	First Quarter 2007	First Quarter 2006
By-product credit ( <i>\$ millions</i> )		
Gross sales revenue per financial statements	(77.9)	(80.7)
Less zinc sales revenue	50.4	72.2
	(27.5)	(8.5)
Treatments and marketing charges ( <i>\$ millions</i> ) per financial statements	19.9	24.8
Direct operating costs ( <i>\$ millions</i> ) per financial statements	23.6	28.8
Total cash costs – C\$ ( <i>\$ millions</i> )	16.0	45.1
C\$/US\$ exchange rate	1.1683	1.1559
Total cash costs – US\$ ( <i>\$ millions</i> )	13.7	39.0
Zinc pounds sold ( <i>millions</i> )	27.7	61.9
Total cash cost per pound of payable zinc sold ( <i>US\$</i> )		
By-product credit	(0.85)	(0.12)
Treatment and marketing costs	0.61	0.35
Direct operating costs	0.73	0.40
<b>Total</b>	<b>0.49</b>	<b>0.63</b>

## SUMMARY OF QUARTERLY RESULTS

	2005 Q2 <sup>(a)</sup>	2005 Q3 <sup>(a)</sup>	2005 Q4	2006 Q1	2006 Q2	2006 Q3	2006 Q4	2007 Q1
Gross sales revenue ( <i>\$ millions</i> )	92.4	71.9	57.4	80.7	101.2	112.0	158.3	<b>77.9</b>
Net earning (loss) ( <i>\$ millions</i> )	2.1	(1.2)	9.3	38.3	28.6	39.2	50.4	<b>15.3</b>
Basic earnings per share	\$0.01	\$0.00	\$0.02	\$0.10	\$0.08	\$0.10	\$0.13	<b>\$0.04</b>
Weighted-average number of Common Shares outstanding ( <i>millions</i> )	367.4	369.5	374.2	382.0	383.8	384.3	385.0	<b>396.4</b>
Diluted earnings per share	\$0.01	\$0.00	\$0.02	\$0.09	\$0.07	\$0.09	\$0.12	<b>\$0.04</b>
C\$/US\$ realized exchange rate	1.2429	1.2019	1.1744	1.1559	1.1239	1.1187	1.1422	<b>1.1683</b>
Average realized zinc price ( <i>US\$/t</i> )	1,252	1,296	1,502	2,221	2,895	3,363	4,227	<b>3,434</b>
Average realized zinc price ( <i>C\$/t</i> )	1,556	1,558	1,764	2,567	3,226	3,762	4,828	<b>4,012</b>
Concentrate tonnes sold	118,022	80,205	60,391	67,355	59,779	61,385	73,230	<b>39,333</b>
Concentrate tonnes produced	88,782	76,014	68,841	66,129	59,906	59,420	67,058	<b>66,895</b>

<sup>(a)</sup> Includes results of the Bougrine mine which closed in September 2005.

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

## TRANSACTIONS WITH RELATED PARTIES

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

## ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES

The notes to the Company's December 31, 2006 audited consolidated financial statements outline the Company's significant accounting policies. Note 2 to the unaudited interim consolidated financial statements for the period ended March 31, 2007 describes changes to the Company's accounting policies. Pages 25 and 26 of the 2006 Annual Report contain a discussion of certain accounting estimates that are considered particularly important, as they require management to make significant judgments, some of which relate to matters that are inherently uncertain. Readers are encouraged to refer to the 2006 Annual Report to review that discussion.

## OUTSTANDING SHARE DATA AND FULL DILUTION CALCULATION

The Company is authorized to issue an unlimited number of Common Shares and 200,000,000 preferred shares, issueable in series. There are no preferred shares outstanding. Each Common Share entitles the holder of record thereof to one vote at all meetings of shareholders of the Company, except at meetings at which only holders of another class or series of shares of the Company are entitled to vote. The table set forth below summarizes the Capital Stock. For a more complete description of certain elements please refer to note 12 to the unaudited consolidated interim financial statements of the Company for the period ended March 31, 2007.

Common Shares or Securities Convertible into Common Shares	May 3, 2007
Issued and outstanding	417,735,984
Share options outstanding weighted-average exercise price \$1.09	8,769,171
Warrants granted at \$1.00, expire January 28, 2009 – traded on TSX	33,569,829
<b>Future fully diluted</b>	<b>460,074,984</b>

## RISKS, UNCERTAINTIES AND OTHER INFORMATION

Readers are encouraged to read and consider the risk factors, and additional information regarding the Company, included in its most recent Annual Report and Form 40-F/Annual Information Form filed with the Canadian securities regulators and the United States Securities and Exchange Commission (the “SEC”), as applicable, a copy of which is posted on the SEDAR website at [www.sedar.com](http://www.sedar.com) and/or the SEC’s website at [www.sec.gov](http://www.sec.gov).

### CAUTION ON FORWARD-LOOKING INFORMATION

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

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

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

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

## **ACCOUNTING CHANGES**

### **Financial Instruments, Hedges and Comprehensive Income**

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

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

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

For details of the specific accounting changes and related impacts, refer to note 2 of the unaudited consolidated interim financial statements of the Company for the period ended March 31, 2007.

## **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION**

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

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

The Company's CEO and CFO certified the appropriateness of the financial disclosures in the Company's interim MD&A and unaudited consolidated financial statements for the period ended March 31, 2007. They also certified that they are responsible for the design of disclosure controls and procedures and internal control over financial reporting. There have been no changes in internal control over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

## Consolidated Balance Sheets

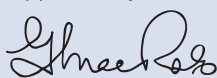
(Expressed in thousands of Canadian dollars)  
(Unaudited)

	March 31, 2007	December 31, 2006
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	93,156	81,412
Restricted cash (note 3)	1,033	1,221
Short-term investments (note 4)	4,112	4,120
Accounts receivable – concentrate	1,154	12,687
Other receivables	12,974	12,676
Concentrate inventory (note 5)	55,034	43,686
Materials and supplies inventory	23,482	22,904
Prepaid expenses and other current assets	6,040	4,029
Future income tax assets (note 11)	11,630	14,745
<b>Total current assets</b>	<b>208,615</b>	197,480
Future income tax asset, long-term (note 11)	11,951	13,440
Reclamation deposits (note 6)	13,500	13,500
Mineral properties and fixed assets	225,808	207,884
Long-term investments (note 7)	34,277	14,704
Restricted promissory notes	62,285	62,285
	<b>556,436</b>	509,293
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	47,350	43,128
Provisional payments for concentrate inventory shipped and not priced	23,440	24,246
Short-term debt including current portion of long-term debt (note 8)	2,425	2,169
Income and mining taxes payable	11,314	9,798
Current portion of reclamation, closure cost accruals and other environmental obligations (note 9)	7,499	8,267
<b>Total current liabilities</b>	<b>92,028</b>	87,608
Deferred income	6,124	6,277
Long-term lease obligations	425	501
Royalty obligations	62,479	62,479
Reclamation, closure cost accruals and other environmental obligations (note 9)	32,713	32,293
Employee future benefits (note 10)	4,148	4,493
Future income tax liabilities (note 11)	10,191	7,089
<b>Total liabilities</b>	<b>208,108</b>	200,740
<b>Shareholders' equity (note 12)</b>	<b>348,328</b>	308,553
	<b>556,436</b>	509,293

Contingencies and commitments (note 14).

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

Approved by the Board



**Garth A.C. MacRae**  
Director



**George E. Pirie**  
Director

## Consolidated Statements of Operations and Retained Earnings (Deficit)

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

For the periods ended March 31	2007	2006
		<i>(restated – see note 2)</i>
Gross sales revenue	77,947	80,658
Treatment and marketing costs	19,920	24,849
Net revenue	58,027	55,809
<b>Operating costs</b>		
Direct operating costs	23,593	28,813
Depreciation and depletion	4,102	5,039
Reclamation and closure costs	953	942
	28,648	34,794
<b>Contribution from mining activities</b>	29,379	21,015
<b>Other expenses (income)</b>		
General and administrative	3,963	3,541
Interest and financing	1,156	1,413
Investment and other income	(1,690)	(1,587)
Other	291	1,255
	3,720	4,622
<b>Earnings before the following:</b>	25,659	16,393
Exploration expenses <i>(note 2(b))</i>	2,671	1,631
Other non-producing property costs	495	2,116
Income and mining tax provision (recovery) <i>(note 11)</i>	7,203	(25,692)
	10,369	(21,945)
<b>Net earnings</b>	15,290	38,338
<b>Retained earnings (deficit), beginning of period</b>	139,795	(172,928)
<b>Change in accounting policy <i>(note 2)</i></b>	5,706	(16,735)
<b>Retained earnings (deficit), end of period</b>	160,791	(151,325)
<b>Basic earnings per Common Share <i>(note 17)</i></b>	\$ 0.04	\$ 0.10
<b>Diluted earnings per Common Share <i>(note 17)</i></b>	\$ 0.04	\$ 0.09
<b>Basic weighted-average number of Common Shares outstanding <i>(000's)</i> <i>(note 17)</i></b>	396,441	382,030

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

## Consolidated Statement of Accumulated Other Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars)  
(Unaudited)

<i>For the period ended March 31</i>	<b>2007</b>
Balance at beginning of period (note 2)	<b>11,980</b>
Reclassification of cumulative translation adjustments (note 2)	<b>(7,689)</b>
Other comprehensive loss	<b>(487)</b>
Balance at end of period (note 12)	<b>3,804</b>

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

## Consolidated Statement of Other Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars)  
(Unaudited)

<i>For the period ended March 31</i>	<b>2007</b>
Net earnings	<b>15,290</b>
Other comprehensive income (loss), net of income taxes:	
Unrealized losses on translating financial statements of self sustaining foreign operations	<b>(616)</b>
Unrealized loss on short-term available-for-sale securities, net of income tax provision of \$37,000 (note 4)	<b>(167)</b>
Unrealized gain on long-term available-for-sale securities, net of income tax provision of \$66,000 (note 7)	<b>296</b>
Other comprehensive loss, net of income taxes	<b>(487)</b>
Comprehensive income	<b>14,803</b>

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 March 31	2007	2006
		<i>(restated – see note 2)</i>
<b>Operating Activities</b>		
Net earnings	15,290	38,338
Items not affecting cash:		
Depreciation and depletion	4,102	5,039
Gain on sale of investment	(306)	–
Unrealized gain on investments	(2,607)	–
Unrealized loss on gold loan	–	968
Foreign exchange loss on US dollar denominated loans	–	243
Other non-cash items	100	116
Stock-based compensation <i>(note 12)</i>	529	396
Unrealized deferred income	(153)	(153)
Future income taxes <i>(note 11)</i>	7,718	(25,991)
Reclamation, closure cost accruals and other environmental obligations	953	942
Employee future benefits <i>(note 10)</i>	395	443
	10,731	(17,997)
Payment of reclamation, closure cost accruals and other environmental obligations	(1,235)	(1,682)
Payment of employee future benefits	(740)	(747)
Changes in non-cash working capital items <i>(note 16)</i>	3,194	8,796
<b>Net cash provided by operating activities</b>	<b>27,240</b>	26,708
<b>Investing Activities</b>		
Reclamation deposits	–	(13,562)
Short-term investments	1,033	2,305
Mineral properties and fixed assets	(23,678)	(9,216)
Proceeds from sale of fixed assets	18	–
<b>Net cash used in investing activities</b>	<b>(22,627)</b>	(20,473)
<b>Financing Activities</b>		
Decrease in restricted cash <i>(note 3)</i>	188	403
Issue of Common Shares for cash <i>(note 12)</i>	6,757	722
Deferred financing fees	–	(223)
Decrease in long-term lease obligations	(76)	(124)
Increase in short-term debt	262	2,847
<b>Net cash provided by financing activities</b>	<b>7,131</b>	3,625
<b>Net increase in cash during the period</b>	<b>11,744</b>	9,860
<b>Cash and cash equivalents, beginning of period</b>	<b>81,412</b>	18,749
<b>Cash and cash equivalents, end of period</b>	<b>93,156</b>	28,609
Supplemental Information		
Cash interest paid	207	218
Cash income and mining taxes paid	–	181

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

# Notes to the Consolidated Financial Statements

For the periods ended March 31, 2007 and 2006  
(Unaudited)

## 1. Basis of Presentation

These unaudited interim consolidated financial statements of Breakwater Resources Ltd. (the “Company”) for the three months ended March 31, 2007 and 2006 have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) and follow the same accounting principles and methods of application as those disclosed in note 1 to the Company’s audited consolidated financial statements for the year ended December 31, 2006. These unaudited financial statements include all adjustments that are, in the opinion of management, necessary for a fair presentation. These unaudited financial statements do not include all disclosures required by Canadian GAAP for annual financial statements and, accordingly, should be read in conjunction with the Company’s audited consolidated financial statements included in the 2006 Annual Report.

### 2006 Figures

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

## 2. Changes in Accounting Policies

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

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

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

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

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

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

Increase (decrease) in the consolidated statements of operations and retained earnings (deficit) and balance sheet amounts for the period ended March 31, 2006:

(\$000's except per share amounts)

Depreciation and depletion	(302)
Exploration expenses	831
Net earnings	(529)
Deficit, beginning of period	(16,735)
Deficit, end of period	(17,264)
Basic earnings per Common Share	\$(0.00)
Diluted earnings per Common Share	\$(0.00)
Mineral properties and fixed assets	(15,079)
Cumulative translation adjustments	2,185

### 3. Restricted Cash

The restricted cash balance at March 31, 2007, of \$1,033,000 (December 31, 2006 - \$1,221,000), includes \$783,000 (December 31, 2006 - \$971,000) placed on deposit to cover certain reclamation costs (see note 6) and \$250,000 (December 31, 2006 - \$250,000) to guarantee an operating lease.

### 4. Short-term Investments

(\$000's)	March 31, 2007	December 31, 2006
Marketable securities:		
Available-for-sale (quoted market value: December 31, 2006 - \$1,226)	1,022	218
Held-for-trading (quoted market value: December 31, 2006 - \$4,275)	3,090	3,902
	<b>4,112</b>	4,120

Marketable securities at March 31, 2007 are carried at fair value with the unrealized loss of \$167,000 on available-for-sale securities recorded in OCI until realized and the unrealized gain on held-for-trading securities of \$153,000 recorded in earnings. Marketable securities at December 31, 2006 were carried at cost, which was lower than the quoted market value. At January 1, 2007, the available-for-sale and held-for-trading securities were remeasured at fair value and the unrealized gain of \$827,000 and \$303,000 are included as an opening adjustment to the AOCI balance at the beginning of the period, and as an adjustment to opening retained earnings (deficit), respectively.

### 5. Concentrate Inventory

Concentrate inventory as at March 31, 2007 includes an amount of \$28,463,000 (December 31, 2006 - \$20,245,000) for shipments where title and risk of ownership have been transferred to the customer but the final settlement price has not been determined. These shipments will be recognized as revenue in accordance with the Company's revenue recognition policy set out in note 1 of the audited consolidated financial statements for the year ended December 31, 2006.

### 6. Reclamation Deposits

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

## 7. Long-term Investments

Long-term investments are classified as available-for-sale securities and are carried at fair value at March 31, 2007. At December 31, 2006, long-term investments were valued at cost, net of other than temporary impairments in value. At March 31, 2007, the Company recorded an unrealized loss on the long-term investments of \$766,000 which included an unrealized loss of \$1,062,000 for the valuation of the conversion rights which was recorded through earnings and an unrealized gain of \$296,000 for the increase in fair value of the debentures which is recorded in OCI. At January 1, 2007, the long-term investments were remeasured at fair value and the unrealized gain of \$11,153,000 for the increase in fair value of the debentures was included in the AOCI balance at the beginning of the period, and the unrealized gain of \$5,403,000 relating to the remeasurement of the conversion rights was included in the opening retained earnings (deficit) (see note 2).

(\$000's)	March 31, 2007	December 31, 2006
Blue Note Metals Inc. unsecured convertible debenture	19,818	9,089
Taseko Mines Limited unsecured convertible debenture (fair market value: December 31 2006 - \$10,569)	14,459	5,615
	<b>34,277</b>	14,704

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

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

## 8. Short-term Debt

(\$000's)	March 31, 2007	December 31, 2006
Reimbursable government assistance, unsecured, non-interest bearing	2,041	2,041
Other	384	128
	<b>2,425</b>	2,169

Reimbursable government assistance relates to the Langlois mine with \$500,000 related to Zone 97. The loan will be paid when Zone 97 becomes profitable as defined in the loan agreement. The remaining balance relates to the installation of a hydro line at the Langlois mine.

## 9. Reclamation, Closure Cost Accruals and Other Environmental Obligations

(\$000's)	March 31, 2007	December 31, 2006
Asset retirement obligations	32,732	33,015
Closure cost accruals	2,137	2,059
Other environmental obligations	5,343	5,486
	<b>40,212</b>	40,560
Less current portion	7,499	8,267
	<b>32,713</b>	32,293

Other environmental obligations represent expenditures required to complete modifications to the tailings facility at the Myra Falls mine. The Company expects to complete the required work by 2008. The estimated obligation was recorded and is being reduced by actual expenditures incurred. As at March 31, 2007, the expenditures since acquisition have been \$9,521,000 (December 31, 2006 - \$9,378,000). The current portion of \$2,001,000 (December 31, 2006 - \$2,001,000) is included in "Current portion of reclamation, closure cost accruals and other environmental obligations" on the consolidated balance sheets.

#### Asset Retirement Obligations

(\$000's)

<b>As at December 31, 2006</b>	<b>33,015</b>
Change in timing of cash flow	6
Accretion (included in reclamation and closure costs)	609
Expenditures	(851)
Impact of foreign exchange	(47)
<b>As at March 31, 2007</b>	<b>32,732</b>
Less: current portion included in Current portion of reclamation, closure cost accruals and other environmental obligations	4,935
	<b>27,797</b>

The estimated amount of undiscounted cash flow required to satisfy the asset retirement obligations as at March 31, 2007, was \$100,170,000 (December 31, 2006 - \$101,094,00). The expected timing of payments ranges from 2007 to 2119, and the credit-adjusted risk-free rates at which the estimated cash flow has been discounted to arrive at the obligation, ranges from 7.17% to 7.89% (2006 - 7.17% to 7.89%). The estimated amount of undiscounted cash flow for March 31, 2007, includes an amount of \$66,329,000 (December 31, 2006 - \$66,329,000) which is for water treatment at the Myra Falls mine in perpetuity.

## 10. Employee Future Benefits

The defined benefit pension plan cost for the three months ended March 31, 2007 was \$395,000 (2006 - \$443,000).

## 11. Income and Mining Taxes

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

(\$000's)	March 31, 2007	December 31, 2006
Future tax assets		
Loss carry forwards	26,689	26,540
Mineral properties and fixed assets	203,031	213,237
Reclamation and closure cost accruals	12,683	12,721
Deferred income	2,056	2,104
Future tax assets before valuation allowance	244,459	254,602
Valuation allowance	220,878	226,417
Future tax assets	23,581	28,185
Future tax liabilities		
Mineral properties — mining tax	(10,191)	(7,089)
Net future tax assets	13,390	21,096

(\$000's)	Three Months ended March 31, 2007	Three Months ended March 31, 2006
Income and mining tax provision (recovery)		
Current income and mining tax provision (recovery)	3,482	(2,010)
Future income and mining tax provision (recovery)	3,721	(23,682)
	<b>7,203</b>	(25,692)

## 12. Shareholders' Equity

Shareholders' equity consists of the following:

(\$000's)	March 31, 2007	December 31, 2006
		<i>(restated – see note 2)</i>
Capital stock	174,171	167,093
Warrants	8,561	8,561
Contributed surplus	1,001	793
Retained earnings <i>(note 2(a))</i>	160,791	139,795
Accumulated other comprehensive income <i>(note 2(a))</i>	3,804	(7,689)
	<b>348,328</b>	308,553

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

Common shares issued: (000's)	Number of Shares	Amount \$
As at December 31, 2006	385,646	167,093
Exercise of warrants <sup>(a)</sup>	30,802	6,160
Employee share option plan – proceeds of options exercised <sup>(b)</sup>	1,041	537
Value ascribed to options exercised under stock-based compensation <sup>(b)</sup>	–	321
Employee share purchase plan	37	60
<b>As at March 31, 2007</b>	<b>417,526</b>	<b>174,171</b>

a) In consideration for restructuring a debt facility in 2001 and 2002, Dundee Corporation ("Dundee") received warrants to purchase an aggregate of 30,801,410 Common Shares at \$0.20 per Common Share. One-half of these warrants were exercisable until March 2, 2007 and the remainder were exercisable until May 2, 2007. No value was ascribed to these warrants on the date of issue. On March 2, 2007 and March 14, 2007, Dundee exercised 15,400,705 and 15,400,705 warrants respectively to purchase 30,801,410 Common Shares at \$0.20 per Common Share. At March 31, 2007 no warrants were outstanding (December 31, 2006 - 30,801,410).

b) Share option transactions were as follows:

	Options (000's)	Weighted-average exercise price
As at December 31, 2006	9,535	\$1.00
Granted	740	2.09
Exercised	(1,041)	0.52
Forfeited	(112)	1.41
Expired	(150)	3.25
<b>As at March 31, 2007</b>	<b>8,972</b>	<b>\$1.11</b>

As at March 31, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Shares outstanding (000's)	Weighted-average remaining contractual life	Weighted-average exercise price	Shares exercisable (000's)	Weighted-average exercise price
\$0.19 - \$0.50	3,062	4 years 35 days	\$0.32	2,537	\$0.31
\$0.51 - \$1.50	3,822	3 years 145 days	\$0.99	2,579	\$0.91
\$1.51 - \$3.00	1,655	4 years 114 days	\$1.88	1,199	\$2.02
\$3.01 - \$8.20	433	1 year 222 days	\$4.57	433	\$4.57
	<b>8,972</b>			<b>6,748</b>	

The Company's Share Option Plan is described in note 14(d) of the Company's audited consolidated financial statements for the year ended December 31, 2006. Compensation expense for the stock-based compensation plan for employees has been determined based upon the fair value of awards granted on or after January 1, 2002.

Stock-based compensation at March 31, 2007 of \$529,000 (2006 - \$396,000) less the initial fair value of options exercised of \$321,000 (2006 - \$293,000), for a net amount of \$208,000 (2006 - \$103,000) was credited to "Contributed surplus" within shareholders' equity on the consolidated balance sheets. The proceeds of options exercised noted above were credited to "Capital stock" within shareholders' equity on the consolidated balance sheets.

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

	Three Months ended March 31, 2007	Three Months ended March 31, 2006
Weighted-average exercise price per Common Share	<b>\$2.09</b>	\$1.02
Weighted-average quoted market price per Common Share at date of grant	<b>\$2.09</b>	\$1.02
Weighted-average grant-date fair value price per Common Share	<b>\$1.21</b>	\$0.62
Expected life (years)	<b>5</b>	5
Risk free interest rate	<b>4.00%</b>	4.20%
Expected volatility	<b>65%</b>	69%
Dividend yield	<b>0%</b>	0%

### 13. Related Party Transactions

All related party transactions are disclosed elsewhere in these consolidated financial statements (note 12(a)) except that as at March 31, 2007, consulting fees payable to Dundee Securities Corporation, an affiliate of a significant shareholder of the Company totalling \$50,000 (December 31, 2006 - \$Nil) are outstanding and are included in "Accounts payable and accrued liabilities" on the consolidated balance sheets.

### 14. Contingencies and Commitments

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

## 15. Segment Information

For the Three Months Ended March 31, 2007 (\$000's) (Unaudited)

Operating Segment	El Mochito Mine	El Toqui Mine	Myra Falls Mine	Langlois Mine	Total
Gross sales revenue	22,942	37,226	17,779	–	77,947
Treatment and marketing costs	(2,019)	(14,400)	(3,501)	–	(19,920)
Net revenue	20,923	22,826	14,278	–	58,027
Direct operating costs	(4,828)	(8,231)	(10,534)	–	(23,593)
Depreciation and depletion	(710)	(2,002)	(1,341)	–	(4,053)
Reclamation and closure costs	(322)	(75)	(402)	(27)	(826)
Contribution (loss) from mining activities	15,063	12,518	2,001	(27)	29,555
General and administrative	–	–	–	–	–
Interest and financing	–	–	–	–	–
Investment and other income	–	–	–	–	–
Other foreign exchange loss	–	–	–	–	–
Exploration expenses	(438)	(1,183)	(734)	–	( 2,355)
Other non-producing property costs	–	–	–	–	–
Income and mining tax provision	(3,416)	(1,559)	(1,678)	(483)	(7,136)
Net earnings (loss)	11,209	9,776	(411)	(510)	20,064
Capital expenditures	3,273	3,977	6,512	9,433	23,195
Mineral properties and fixed assets	22,992	26,888	69,217	98,932	218,029
Identifiable assets	45,450	51,750	222,430	104,641	424,271

Information about major customers – Summary of net revenue from major customers for the three month period ended March 31, 2007.

Revenue Source (\$000's)	Revenue Generated From			
	Myra Falls	El Mochito	El Toqui	Total
Customer 1	11,644	–	10,537	22,181
Customer 2	–	14,290	–	14,290
Customer 3	–	–	9,544	9,544
Customer 4	–	5,859	1,288	7,147

For the Three Months Ended March 31, 2006 (\$000's) (Unaudited) (restated – see note 2)

Operating Segment	El Mochito Mine	El Toqui Mine	Myra Falls Mine	Langlois Mine	Total
Gross sales revenue	30,222	13,278	41,136	–	84,636
Treatment and marketing costs	(8,763)	(3,276)	(12,879)	–	(24,918)
Net revenue	21,459	10,002	28,257	–	59,718
Direct operating costs	(7,865)	(3,044)	(17,904)	–	(28,813)
Depreciation and depletion	(1,661)	(492)	(2,865)	–	(5,018)
Reclamation and closure costs	(150)	(76)	(375)	(25)	(626)
Contribution (loss) from mining activities	11,783	6,390	7,113	(25)	25,261
General and administrative	–	–	–	–	–
Interest and financing	–	–	–	–	–
Investment and other income	–	–	–	–	–
Loss on gold loan	–	–	(1,096)	–	(1,096)
Foreign exchange gain on US dollar denominated debt	–	–	–	–	–
Other foreign exchange loss	–	–	–	–	–
Exploration expenses	(178)	(393)	–	–	( 571)
Other non-producing property income (costs)	–	–	–	–	–
Income and mining tax (provision) recovery	(4,004)	405	26,972	–	23,373
Net earnings (loss)	7,601	6,402	32,989	(25)	46,967
Capital expenditures	2,104	1,182	3,696	2,220	9,202
Mineral properties and fixed assets	17,609	20,721	56,796	51,506	146,632
Identifiable assets	38,735	40,918	208,589	54,031	342,273

Information about major customers – Summary of net revenue from major customers for the three month period ended March 31, 2006.

Revenue Source (\$000's)	Revenue Generated From			
	Myra Falls	El Mochito	El Toqui	Total
Customer 1	–	16,768	–	16,768
Customer 2	653	7,481	537	8,671
Customer 3	8,634	–	–	8,634
Customer 4	8,560	–	–	8,560
Customer 5	4,378	–	3,898	8,276

Bougrine Mine	Bouchard-Hébert Mine	Nanisivik Mine	Caribou Mine	Total	Corporate and Other	Consolidated
-	-	-	-	-	-	77,947
-	-	-	-	-	-	(19,920)
-	-	-	-	-	-	58,027
-	-	-	-	-	-	(23,593)
-	-	-	-	-	(49)	(4,102)
(35)	(43)	(49)	-	(127)	-	(953)
(35)	(43)	(49)	-	(127)	(49)	29,379
-	-	-	-	-	(3,963)	(3,963)
-	-	-	-	-	(1,156)	(1,156)
-	-	-	-	-	1,690	1,690
-	-	-	-	-	(291)	(291)
(94)	(222)	-	-	( 316)	-	(2,671)
(274)	(209)	(1)	(4)	( 488)	(7)	(495)
-	-	(67)	-	( 67)	-	(7,203)
(403)	(474)	(117)	(4)	(998)	(3,776)	15,290
-	-	-	-	-	483	23,678
1,691	2,740	1,199	-	5,630	2,149	225,808
2,500	4,030	2,292	16	8,838	123,327	556,436

Bougrine Mine	Bouchard-Hébert Mine	Nanisivik Mine	Caribou Mine	Total	Corporate and Other	Consolidated
(53)	-	-	-	(53)	(3,925)	80,658
69	-	-	-	69	-	(24,849)
16	-	-	-	16	(3,925)	55,809
-	-	-	-	-	-	(28,813)
-	-	-	-	-	(21)	(5,039)
(55)	(103)	(55)	(103)	(316)	-	(942)
(39)	(103)	(55)	(103)	(300)	(3,946)	21,015
-	-	-	-	-	(3,541)	(3,541)
-	-	-	-	-	(1,413)	(1,413)
-	-	-	-	-	1,587	1,587
-	-	-	-	-	-	(1,096)
-	-	-	-	-	(118)	(118)
-	-	-	-	-	(41)	(41)
(260)	(800)	-	-	(1,060)	-	(1,631)
(325)	(56)	137	(1,835)	(2,079)	(37)	(2,116)
-	-	-	-	-	2,319	25,692
(624)	(959)	82	(1,938)	(3,439)	(5,190)	38,338
-	-	-	-	-	14	9,216
2,533	3,318	1,620	-	7,471	590	154,693
6,055	4,250	3,445	1,162	14,912	52,174	409,359

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

<i>(\$000's)</i>	Three Months ended March 31, 2007	Three Months ended March 31, 2006
Accounts receivable – concentrate	11,729	(15,790)
Other receivables	(298)	929
Concentrate inventory	(10,631)	(2,324)
Materials and supplies inventory	(734)	(267)
Prepaid expenses and other current assets	(2,038)	(772)
Accounts payable and accrued liabilities	4,435	(326)
Provisional payments for concentrate inventory shipped and not priced	(806)	27,120
Income and mining taxes payable	1,537	226
	<b>3,194</b>	8,796

## 17. Earnings per Common Share

Basic earnings per Common Share (“EPS”) has been calculated using the weighted-average number of shares outstanding during the period. The calculation of diluted earnings per Common Share has been computed using the treasury stock method which assumes that options and warrants with an exercise price lower than the average quoted market price were exercised at the beginning of the period, or at time of issue. In applying the treasury stock method, options and warrants with an exercise price greater than the average quoted market price of the Common Shares are not included in the calculation of diluted earnings per Common Share as the effect is anti-dilutive. The average quoted market price of the Common Shares during the three month period ended March 31, 2007 was \$1.81 (2006 - \$0.96).

	Three Months ended March 31, 2007	Three Months ended March 31, 2006
		<i>(restated – see note 2)</i>
Basic earnings per Common Share	<b>\$0.04</b>	\$0.10
Diluted earnings per Common Share	<b>\$0.04</b>	\$0.09
Basic weighted-average number of Common Shares outstanding (000's)	<b>396,441</b>	382,030
Incremental Common Shares on assumed exercise of options and warrants (000's)	<b>38,062</b>	29,253
Weighted-average number of Common Shares used for diluted earnings per Common Share (000's)	<b>434,503</b>	411,283