

Breakwater Resources Ltd.'s Second Quarter 2011 Financial and Operating Results

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Net Earnings Lower

TORONTO, 07/28/11 - [Breakwater Resources Ltd.](#) (TSX: BWR)(TSX: BWR.WT.A) realized net earnings of \$17.9 million or \$0.23 per share in the second quarter of 2011 compared with \$21.6 million or \$0.31 per share in the second quarter of 2010.

Revenues and Production

Gross sales revenue was 34% higher at \$104.4 million primarily due to 32% more tonnes of concentrate sold and higher metal prices. Concentrate produced in the second quarter of 2011 decreased 12% to 56,247 tonnes compared with the second quarter of 2010 due to 37% and 6% decreases at Mochito and Myra Falls respectively partially offset by a 17% increase at Toqui.

Cash

Cash and cash equivalents increased by \$1.2 million in the second quarter of 2011 to \$117.0 million at June 30, 2011.

Direct Operating Costs

Direct operating costs were 79% higher in the second quarter of 2011 at \$48.2 million compared with \$27.0 million in the second quarter of 2010. The increased costs were primarily due to 32% more tonnes of concentrate sold, the mix of concentrate sold and increased costs at all operations. On a cost per tonne of concentrate sold basis, direct operating costs increased to \$688 in the second quarter of 2011 from \$508 in 2010 primarily due to the factors noted above.

Capital Expenditures

The Company invested \$42.2 million in mineral properties and fixed assets during the first six months of 2011. At mining operations, \$14.9 million, \$8.0 million, \$5.0 million and \$13.9 million were spent at Mochito, Toqui, Myra Falls and Langlois respectively. For details of these expenditures, please refer to the financial results discussion for each mine. Corporate capital expenditures were \$0.4 million.

Operations

In the first six months of 2011, production of gold, copper and silver contained within the Company's concentrates while zinc and lead production was below target.

At Mochito, shortfalls in mine production were largely as a result of power outages, pumping requirements and changes in expected mineralization. Mining cycle issues especially in ground support, rehabilitation and backfill were also contributing factors to the tonnes mined being below target. Mill throughput for the second quarter of 2011 was below that of the same period in 2010 primarily due to lower ore availability. Lower production of contained metal was also as a result of lower head grades combined with the lower throughput. In addition, the lower zinc head grade resulted in slightly lower zinc recoveries while lead recoveries improved.

A system to automate and stabilize the addition of water to the grinding circuit was installed at Mochito in late June 2011 with steady grinding densities observed thereafter. In addition, a new Atomic Absorption Spectrometer was installed which has improved the accuracy and speed of assay information. To improve lead and silver recoveries, a flash flotation cell is planned to be installed in the grinding circuit in the fourth quarter of 2011.

At Toqui, equipment availability continued to improve in the second quarter of 2011 with the availability approaching targeted levels enabling the operation to mine more tonnes of ore than were planned. The paste backfill plant is operating as expected and cemented paste backfill is being delivered underground. During the second quarter more paste was deposited underground than initially planned allowing the operation to partially catch up on a portion of the shortfall in paste deposition caused by late commissioning of the plant. The delays in commissioning the paste backfill plant required a change in the mining sequence that resulted in the zinc head grade being lower than plan.

At Myra Falls, two new scoops were received and placed into service in the second quarter of 2011 and an additional new scoop and two new haul trucks are expected to be placed into service in the third quarter. Mill feed was 4% below target for the second quarter of 2011 primarily due to equipment availability, a tram derailment and backfill delays. For the first six months of 2011, zinc concentrate production was 89% of plan primarily as a result of the shortfall in mill feed and 6% shortfall in zinc head grade. Zinc head grades are expected to improve for the second half of 2011. Copper concentrate production was slightly above expectations due to copper grades and recoveries being above plan. The copper, lead and gold circuits are all being modified to further improve recoveries and a new on-stream analyzer will be installed in the third quarter of 2011.

At Langlois, development during the second quarter of 2011 was on target and the Company remains on track to restart production during the first quarter of 2012.

STATEMENT OF OPERATIONS REVIEW - THREE MONTHS ENDED MARCH 31, 2011 AND 2010

A breakdown of gross sales revenue for the three month periods ended June 30, 2011 and 2010 is set forth in the following tables.

Second Quarter 2011				
	Concentrate sold (tonnes)	Payable metal(1)	Realized price(1) (US\$)	Gross sales revenue (\$'000's)
Zinc	57,554	25,175	2,263	56,977
Copper	4,713	1,076	8,927	9,603
Lead	6,131	3,403	2,475	8,424
Gold(2)	1,716	10,050	1,496	15,037
Silver	n.a.	473,650	37.15	17,596
Other(3)	n.a.			71
	70,114			
Gross sales revenue in US\$				107,708
Exchange rate				0.9692
Gross sales revenue in C\$				104,392

Second Quarter 2010				
	Concentrate sold (tonnes)	Payable metal(1)	Realized price(1) (US\$)	Gross sales revenue (\$'000's)
Zinc	39,713	17,252	2,033	35,072
Copper	2,820	674	6,933	4,673
Lead	7,912	4,887	2,061	10,074
Gold(2)	2,725	15,024	1,241	18,640
Silver	n.a.	487,637	18.53	9,035
Other(3)	n.a.			(298)
	53,170			
Gross sales revenue in US\$				77,196
Exchange rate				1.0099
Gross sales revenue in C\$				77,959

- (1) Payable metal and realized prices for zinc, copper and lead are per tonne and for gold and silver are per ounce.
- (2) Gold concentrate sales are principally from Toqui while payable gold is from all operations except Mochito.
- (3) Other gross sales revenue represents revaluations of prior period concentrate receivables.

PRODUCTION RESULTS

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

All Mines	Second Quarter		First Six Months	
	2011	2010	2011	2010
Tonnes Milled	438,550	431,959	876,991	850,908
Zinc (%)	6.1	6.8	5.8	6.6
Concentrate Production (tonnes)				
Zinc:				
Mochito	10,542	17,728	24,398	34,099
Toqui	16,426	13,434	30,132	22,840
Myra Falls	18,448	18,177	31,450	36,512
	45,416	49,339	85,980	93,451
Copper:				
Myra Falls	4,582	6,377	8,590	11,960
Lead:				
Mochito	4,854	6,791	10,509	13,831
Toqui	-	386	-	769
Myra Falls	133	-	558	-
	4,987	7,177	11,067	14,600
Gold:				
Toqui	1,262	1,267	2,908	3,404
Total	56,247	64,160	108,545	123,415
C\$ operating costs, production basis (\$000's)				
	38,619	32,171	74,981	64,096
C\$ operating cost per tonne milled (production basis)				
	88	74	85	75

IFRS

The second quarter financial statements are the first set of financial statements which have been prepared by the Company under IFRS and contain significant disclosure regarding the impact of the transition to IFRS from Cdn GAAP. Please refer to the unaudited consolidated interim financial statements for the periods ended June 30, 2011, with the comparative figures for the period ended June 30, 2010 for details of the accounting policies being used under IFRS as well as reconciliations of certain prior period Cdn GAAP financial statements to IFRS.

The unaudited consolidated interim financial statements for the period ended June 30, 2011, with the comparative figures for the period ended June 30, 2010 and the notes thereto, together with the management's discussion and analysis of the unaudited interim financial and operating results have been filed on www.sedar.com. Additionally, the documents are available on our website at <http://www.breakwater.ca/Investors/AnnualandQuarterlyReports/default.aspx>.

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