

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

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## Net Earnings Higher

TORONTO, ONTARIO -- (Marketwire) -- 05/11/11 -- [Breakwater Resources Ltd.](#) (TSX: BWR) (TSX: BWR.WT.A) realized net earnings of \$30.8 million or \$0.39 per share in the first quarter of 2011 compared with \$24.9 million or \$0.36 per share in the first quarter of 2010. The first quarter of 2011 net earnings included \$19.0 million or \$0.24 per share income tax recovery related to establishing a deferred tax asset for the Myra Falls operation.

David M. Petroff, President and Chief Executive Officer, stated that, 'We are pleased to have posted another positive quarter. Each of the operations had their challenges in the first quarter of 2011, most of which are issues carried forward from last year, and we appear to be well positioned to put them behind us. We expect to meet our production guidance for the year. Healthy commodity prices continued to buoy the Company allowing us to make necessary investments in infrastructure, all while bolstering our working capital.'

## Revenues, Concentrate and Production

Gross sales revenue was 30% lower at \$76.2 million primarily due to 49% fewer tonnes of concentrate sold and a lower C\$ partially offset by higher metal prices. Concentrate produced in the first quarter of 2011 decreased 12% to 52,298 tonnes compared with the first quarter of 2010 due to 17% and 27% decreases at Mochito and Myra Falls respectively partially offset by a 29% increase at Toqui.

Under International Financial Reporting Standards (IFRS), revenue is expected to be recognized sooner than would have previously occurred under Canadian GAAP as revenue is recognized based on an estimate of the final settlement price under IFRS while under Canadian GAAP the Company did not record revenue until the settlement price was final.

## Cash

Cash and cash equivalents decreased by \$18.1 million in the first quarter of 2011 to \$115.8 million at March 31, 2011.

## Direct Operating Costs

Direct operating costs were 18% lower in the first quarter of 2011 at \$32.2 million compared with \$39.2 million in the first quarter of 2010. The decreased costs were primarily due to 49% lower tonnes of concentrate sold and the mix of concentrate sold partially offset by increased costs at all operations.

## Capital Expenditures

The Company invested \$18.1 million in mineral properties and fixed assets during the first quarter of 2011. At mining operations, \$5.0 million, \$4.3 million, \$2.0 million and \$6.6 million were spent at Mochito, Toqui, Myra Falls and Langlois respectively.

## Operations

Production of the various metals contained within the Company's concentrates varied between 26% of the targeted total for the year in the case of silver to 22% of the targeted total in the case of zinc, lead and gold with copper on target. At Mochito, power interruptions and sequencing issues continued to affect production in the first quarter of 2011. At Toqui, delays in the paste backfill plant contributed to lower than planned head grades for the first quarter. Myra Falls had a planned 10 day shutdown in January to install a new mill process control system. Mill feed was below plan as poor scooptram availability hindered both the production

and the development cycle. As well, grades were lower than planned due to sequencing issues, some of which were caused by poor ground conditions.

Notwithstanding the challenges encountered in the first quarter of 2011, at Mochito, rehabilitation of the 2100 level is complete which is expected to relieve congestion in the mine. Additionally, Mochito's head grades are anticipated to improve over the coming quarters. At Toqui, equipment availability has improved significantly and additional improvements are expected in the second quarter of this year. The paste backfill plant is now operating normally. Mining of Porvenir, a key component of the 2011 mine plan because of its higher zinc head grade, has commenced and accordingly, zinc head grades are anticipated to improve over the remainder of the year. At Myra Falls, the updates to the mill should assist in attaining more consistent mill results and contribute toward improving metal recoveries. To address equipment availability issues, three new scooptrams have been ordered. The first two of these have been delivered, one is in service and the second will be in service shortly. The third scooptram is expected to be operational by July. Accordingly, the Company is maintaining guidance for operating costs, exploration expenses and production for all of its operations with the exception of Toqui where it is correcting its silver guidance to 50,000 ounces for the year. With regard to capital expenditures, it was deemed appropriate that certain investments in infrastructure be accelerated. It is anticipated that approximately \$9.0 million more will be spent in 2011 bringing the total capital expenditures to \$101.1 million.

Finally, at Langlois development during the quarter 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 March 31, 2011 and 2010 is set forth in the following tables.

## First Quarter 2011

	Concentrate sold (tonnes)	Payable metal(1)	Realized price(1) (US\$)	Gross sales revenue (\$'000's)
Zinc	29,400	12,497	2,401	30,010
Copper	4,765	1,096	8,775	9,620
Lead	5,032	2,840	2,587	7,347
Gold(2)	2,071	12,510	1,379	17,252
Silver	n.a.	412,550	30.90	12,749
Other(3)	n.a.			769
	41,268			
Gross sales revenue in US\$				77,747
Exchange rate				0.9796
Gross sales revenue in C\$				76,159

## First Quarter 2010

	Concentrate sold (tonnes)	Payable metal(1)	Realized price(1) (US\$)	Gross sales revenue (\$'000's)
Zinc	67,289	28,691	2,260	64,854
Copper	6,768	1,502	7,164	10,760
Lead	4,704	2,956	2,152	6,361
Gold(2)	1,473	13,605	1,111	15,110
Silver	n.a.	498,443	16.98	8,463
Other(3)	n.a.			(101)
	80,234			
Gross sales revenue in US\$				105,447
Exchange rate				1.0299
Gross sales revenue in C\$				108,604

- (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.

### Price Protection

Breakwater protects itself against fluctuations in metal prices and foreign exchange rates using swaps, collars or option contracts. Additionally, certain of the Company's contracts with customers allow it to lock-in the future price to be received for contained metals payable.

In the first quarter of 2011, the Company recorded a loss of \$2.7 million related to its price protection activities compared with a gain of \$0.3 million in the first quarter of 2010.

As at May 11, 2011, the Company's hedge position consisted of:

## Swaps and Fixed Price Contracts:

Metal	Quantity(1)	Price(US\$)(1)	2011 Period
Zinc	26,700	\$2,446	May to December
Lead	4,625	\$2,656	May to November
Silver	613,000	\$45.39	May to November
Gold	210	\$1,368	May

## Puts and Calls:

Metal	Quantity (1)	Puts Bought Price (US\$) (1)	Calls Sold Price (US\$) (1)	Calls Bought Price (US\$) (1)	2011 Period
Zinc	4,000	\$2,040	n.a.	n.a.	May to June
Zinc	8,000	n.a.	n.a.	\$3,086	July to November
Copper	700	\$7,716	n.a.	n.a.	July
Copper	400	\$8,269	\$9,470	\$12,000	July
Lead	1,500	\$2,470	n.a.	n.a.	September
Lead	1,100	\$2,315	\$2,565	n.a.	May
Lead	2,525	n.a.	n.a.	\$4,000	August to November
Silver	615,000	\$25.54	n.a.	n.a.	May to December
Silver	170,000	\$26.00	\$30.75	n.a.	October to November
Silver	200,000	n.a.	n.a.	\$66.50	August to November
Gold	11,200	\$1,254	n.a.	n.a.	May to December

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

**PRODUCTION RESULTS**

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

	First Quarter	
	2011	2010
All Mines		
Tonnes Milled	438,441	418,949
Zinc (%)	5.5	6.3
Concentrate Production (tonnes)		
Zinc		
Mochito	13,856	16,371
Toqui	13,706	9,406
Myra Falls	13,002	18,335
	40,564	44,112
Copper		
Myra Falls	4,008	5,583
	4,008	5,583
Lead		
Mochito	5,655	7,040
Toqui	-	383
Myra Falls	425	-
	6,080	7,423
Gold		
Toqui	1,646	2,137
Myra Falls	-	-
	1,646	2,137
Total	52,298	59,255
C\$ operating costs, production basis (\$000's)	36,361	31,926
C\$ operating cost per tonne milled (production basis)	83	76

## IFRS

The first 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 period ended March 31, 2011, with the comparative figures for the period ended March 31, 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 March 31, 2011, with the comparative figures for the period ended March 31, 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](http://www.sedar.com). Additionally, the documents are available on our website at <http://www.breakwater.ca/Investors/AnnualandQuarterlyReports/default.aspx>.

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