

***TIMMINCO***

**TIMMINCO LIMITED**

**ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED DECEMBER 31, 2008**

**March 25, 2009**

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In this Annual Information Form, the terms “the Company”, “Timminco” or “we” refer to Timminco Limited and its direct or indirect wholly-owned subsidiaries, unless the context requires otherwise.

## **CAUTIONARY NOTE ON FORWARD-LOOKING INFORMATION**

This Annual Information Form contains “forward-looking information”, as such term is defined in applicable Canadian securities legislation, concerning Timminco’s future financial or operating performance and other statements that express management’s expectations or estimates of future developments, circumstances or results. Generally, forward-looking information can be identified by the use of forward-looking terminology such as “expects”, “believes”, “anticipates”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “plans” and variations of such words and phrases, or by statements that certain actions, events or results “may”, “will”, “could”, “would” or “might” “be taken”, “occur” or “be achieved”. Forward-looking information is based on a number of assumptions and estimates that, while considered reasonable by management based on the business and markets in which Timminco operates, are inherently subject to significant operational, economic and competitive uncertainties and contingencies. Timminco cautions that forward-looking information involves known and unknown risks, uncertainties and other factors that may cause Timminco’s actual results, performance or achievements to be materially different from those expressed or implied by such information, including, but not limited to: deteriorating global economic conditions; future growth plans and strategic objectives; liquidity risks; limitations under existing credit facilities; long-term contracts for supplying solar grade silicon; solar grade silicon production cost targets; selling prices of solar grade silicon and silicon metal; achieving and maintaining the purity of solar grade silicon; production capacity expansion at the Bécancour facilities; pricing and availability of raw materials for the silicon business; customer capabilities in producing ingots; limited history with the solar grade silicon business; dependence upon power supply for silicon metal production; protection of intellectual property rights; government and economic incentives; closure of the magnesium facilities and the completion of related proposed transactions; cost and availability of magnesium metal; dependence upon key customers of magnesium extruded and fabricated products; credit risk exposure; customer concentration; equipment failures; labour disputes; foreign currency exchange; dependence upon key executives and employees; completion and integration of potential acquisitions, partnerships or joint ventures; risks with foreign operations and suppliers; environmental, health and safety laws and liabilities; transportation disruptions; conflicts of interest; interest rates; intellectual property infringement claims; new regulatory requirements; changes in tax laws; and climate change. These factors are discussed in greater detail below, under “Risk Factors”. Although Timminco has attempted to identify important factors that could cause actual results, performance or achievements to differ materially from those contained in forward-looking information, there can be other factors that cause results, performance or achievements not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate or that management’s expectations or estimates of future developments, circumstances or results will materialize. Accordingly, readers should not place undue reliance on forward-looking information. The forward-looking information in this Annual Information Form is made as of the date noted on the cover hereof and Timminco disclaims any intention or obligation to update or revise such information, except as required by applicable law.

## ITEM 1. CORPORATE STRUCTURE

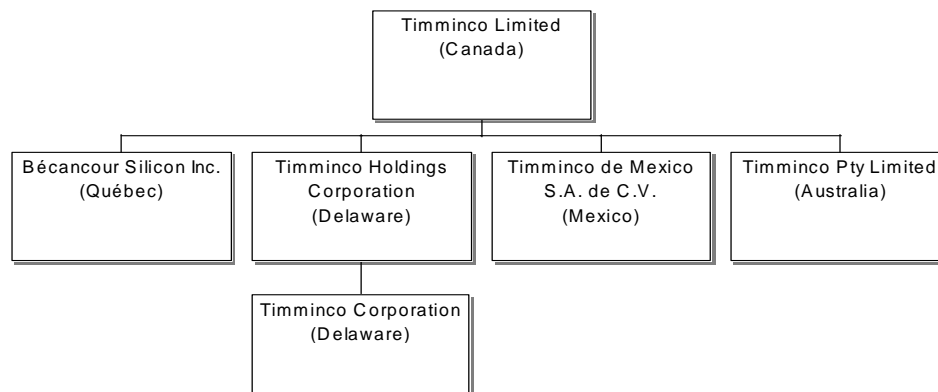
### Issuer

The Company was formed under the name “Chromasco Limited” pursuant to articles of amalgamation issued on June 1, 1974 under the *Business Corporations Act* (Ontario) amalgamating Chromasco Corporation Limited, Chromium Mining & Smelting Corporation, Limited and Light Alloys Corporation Limited. The Company was continued under the *Canada Business Corporations Act* on July 23, 1980 and amended its articles on: (i) May 26, 1983 to create its senior preference shares; (ii) January 20, 1984 to change its name to its current name “Timminco Limited” and to change its then issued and outstanding Class A and Class B preference shares into common shares; (iii) June 9, 1995 to create an unlimited number of Class A preference shares and to redesignate its senior preference shares as Class B preference shares; (iv) May 15, 1996 to amend and restate the rights, privileges, conditions and restrictions attached to its Class A and Class B preference shares, to redesignate its Class A and Class B preference shares as Class B and Class C preference shares, respectively, and to create two new classes of shares, designated as Class A and Class D preference shares, respectively; (v) May 5, 1997 to remove and delete the rights, privileges, restrictions and conditions attached to the Class B and Class C preference shares, to redesignate the Class D preference shares as Class B preference shares and to amend and restate the rights, privileges, restrictions and conditions attached to the Class A and Class B preference shares as redesignated; and (vi) June 2, 2008 to allow the directors of the Company to appoint one or more additional directors in accordance with the *Canada Business Corporations Act*. The Company’s restated articles are dated June 2, 2008.

The Company’s head and registered office is located at Sun Life Financial Tower, 150 King Street West, Suite 2401, Toronto, Ontario, Canada, M5H 1J9.

### Subsidiaries

The chart below illustrates the Company’s corporate structure, its material subsidiaries and their jurisdictions of organization or incorporation as of December 31, 2008. All such subsidiaries are wholly-owned, directly or indirectly, by the Company unless otherwise specified.



## **ITEM 2. GENERAL DEVELOPMENT OF THE BUSINESS**

### **Overview**

The Company is a leader in the production and marketing of lightweight metals, specializing in solar grade silicon for the solar photovoltaic (“PV”) energy industry. The Company has two reportable segments – the silicon business (also known as the “Silicon Group”) and the magnesium business (also known as the “Magnesium Group”).

In its silicon business, the Company uses proprietary technology to process metallurgical grade silicon into solar grade silicon, for use in the manufacture of solar cells. The Company also produces silicon metal for use in a broad range of industrial applications. The Company conducts its silicon business through its wholly-owned subsidiary, Bécancour Silicon Inc.

In its magnesium business, the Company produces specialty magnesium products, as well as calcium alloys, for use in a broad range of industrial applications serving the aluminum, chemical, pharmaceutical, electronics and automotive industries.

As at December 31, 2008, the Company had a total of 490 employees in its silicon and magnesium businesses and at its head office.

AMG Advanced Metallurgical Group N.V. (“AMG”) became the controlling shareholder of the Company in 2007 and, as at December 31, 2008, held directly 52,559,733, or 50.4%, of the issued and outstanding common shares of the Company. Subsequent to an equity offering the Company completed on February 3, 2009, AMG directly held 56,497,933 common shares of the Company, representing 50.7% of the total issued and outstanding shares.

### **Silicon Group**

#### **Solar Grade Silicon**

The Company started to produce solar grade silicon in 2007 for the solar PV energy industry. The Company uses a patent-pending process to purify low purity metallurgical grade silicon into higher purity solar grade silicon (also known as upgraded metallurgical silicon or “UMSi”) for manufacturers of solar wafers and solar cells. Solar cells are the critical component in solar modules (or panels) for converting solar energy into an electrical current. Solar grade silicon has historically been, and continues to be, produced by starting with ultra-high purity polysilicon, and adding “dopants” to make it suitable for solar wafers and solar cells. The Company’s proprietary process requires significantly less capital investment and uses considerably less electricity than for the production of polysilicon.

The Company built a small scale production facility in late 2006 to test its proprietary purification process. Based on the initial success of this process, and the execution of initial long-term contracts with customers for the supply of the Company’s solar grade silicon in early 2007, the Company commenced construction of a production facility for solar grade silicon in August 2007, which facility was completed in February 2008. By the end of 2007, the Company had entered into four long-term contracts for the supply of solar grade silicon through 2012, and had received orders from customers, which accounted for all of the Company’s planned production capacity in 2008. During 2008, the Company signed an additional three long-term supply contracts with solar cell manufacturers.

In March 2009, the Company announced that it will produce solar grade silicon at reduced levels that bring production in line with customer orders due to difficult market conditions and reduced demand for solar grade silicon. The Company will defer further capacity expansion of its solar grade silicon facility pending recovery of demand for solar grade silicon.

Over the long term, the solar PV energy industry is expected to experience significant growth driven by continued growth in the demand for electricity worldwide, the increasing preference for renewable energy sources and solar's advantages over other "clean" alternatives. This growth is being supported by billions of dollars of investment and government commitments to increasing the proportion of energy generated by alternative means. Moreover, as related technologies improve and output in the various segments of the value chain increases, solar PV energy is becoming more economical.

### **Silicon Metal**

The Company is, and has been for several years, one of North America's largest producers of silicon metal. The Company's facility in Bécancour, Québec, has been in operation for more than 30 years, and has a production capacity of approximately 50,000 metric tons per year of silicon metal (also known as metallurgical grade silicon). The Company's silicon metal products are used primarily in the chemical, electronics, aluminum, iron and steel industries, as well as for the production of polysilicon and fumed silica. The Company's expertise in manufacturing silicon metal was the foundation for the Company's initial development of its solar grade silicon product line. The Company's silicon metal product line is expected to support the Company's solar grade silicon product line in the future.

The Company initially acquired the silicon metal product line in September 2004.

In recent years, the price of silicon metal has appreciated from historical lows of approximately \$0.50 per pound reached in 2003 to the \$1.70 to \$1.90 range throughout most of 2008 (prior to the impact of the general macroeconomic environment). The significant price appreciation was the result of the confluence of a number of market conditions, including higher energy costs, a number of independent factors that have constrained supply, and increased market demand, especially from the solar energy industry, among others. More recently, the rapid deterioration in the global economy, including a slow-down in the chemical, aluminum and steel industries, has resulted in a retreat in the spot price of silicon metal.

In March 2009, the Company announced that it will temporarily curtail production of silicon metal due to difficult market conditions and reduced demand for silicon metal in the chemical and aluminum industries. This operating mode will be implemented at the beginning of the second quarter 2009, with the goal to preserve cash flow and decrease current working capital levels. During this period, the Company will supply silicon metal to customers from existing finished goods inventory.

### **Magnesium Group**

The Company produces value-added magnesium products, which are used in a broad range of specialised applications for the water heater, construction, consumer products, sporting goods, lead refining and container industries, among others. The Company has historically had a strong position in several market niches, including a significant share of the market for magnesium anodes for the North American water heater industry. Magnesium's light-weight, excellent machinability and chemical and mechanical properties make it a preferred alternative to aluminum and other materials in many applications. The Company became the world's largest magnesium extrusion company when it acquired in 1998 the magnesium extrusion and fabrication business that is currently based in Aurora, Colorado.

The Company once produced pure magnesium, at its Haley, Ontario facility, but these operations were closed over a period of years as part of the Company's strategy to reduce its dependence on the sale of commodity products where it was not able to effectively compete against other commodity-grade suppliers. The Company now purchases the magnesium feedstock it needs for its specialty extruded magnesium products from third party suppliers, primarily from China.

Competition from China prior to 2007 forced magnesium metal prices down to the point where many Western manufacturers of this commodity closed their plants. This led to a significant increase in magnesium metal prices in 2007 and further significant price fluctuations in 2008, putting pressure on downstream operations, like the Company's magnesium extrusion business and magnesium die casters. Although some of the increased costs were passed on to customers, continued fluctuations in the price of magnesium metal prices has proved challenging for the Company's magnesium extrusion and fabrication business.

During 2008, the Company focussed on positioning its magnesium business for a return to profitability and strategic divestiture. Given the low manufacturing cost environment in China, the Company successfully transferred activities previously undertaken at its Haley, Ontario magnesium manufacturing facilities to China, leading to the closure of that facility in June 2008. Additionally, high labour content activities related to water heater anodes, formerly undertaken in the Company's Aurora, Colorado facility, were successfully moved to the Company's manufacturing facility in Nuevo Laredo, Mexico supported by the Chinese supply chain. These moves have provided the Company's magnesium business with a competitive core to be built upon in the future or leveraged by a strategic purchaser. Subsequent to the year end, the Company announced its intention to wind down production operations at its facility in Aurora, Colorado and to close that facility later in 2009. The Company also announced in February 2009 its intention to pursue certain transactions with a third party to transfer the Company's magnesium business into a new merged business in which the Company would hold a minority interest.

### **Investment in Aluminum Wheels Business**

Fundo Wheels AS ("Fundo"), a Norwegian company with operations located in Høyanger, Norway, is an original equipment manufacturer of cast aluminum wheels for high end European automobile original equipment manufacturers. As at December 31, 2008, the Company held a 45.3% equity interest in Fundo Wheels. The remaining 54.7% equity interest in Fundo Wheels is held by the community of Høyanger, the Høyangerfondet foundation and Sogn og Fjordane Fylkeskommune.

The Company has from time to time provided subordinated debt financing to Fundo. On February 12, 2008 and July 11, 2008 the Company advanced funds to Fundo to address short term working capital deficits while Fundo pursued potential new sales opportunities in the automotive industry and continued the development of its hybrid wheel technology. Throughout the summer of 2008 the automotive industry experienced a significant decrease in overall demand for the standard wheels manufactured and sold by Fundo. By the end of the third quarter 2008, the Company determined that it would no longer fund Fundo's working capital deficits. Fundo's management attempted to secure additional capital and liquidity; however, it was ultimately unsuccessful. In the third quarter 2008, the Company's investment in Fundo, consisting of equity and loans, was written down to \$nil, which was management's best estimate of its fair value. On January 12, 2009, Fundo commenced bankruptcy proceedings in Norway.

### **ITEM 3. DESCRIPTION OF THE BUSINESS – SILICON GROUP**

#### **Products and Markets**

There are many and varied applications of silicon, each application with its own particular specifications.

Most of the world production of metallurgical grade silicon goes to the aluminum and chemical industries.

A portion of worldwide production of metallurgical grade silicon is used in the semiconductor industry for producing silicon wafers. The semiconductor industry requires an ultra-pure grade of silicon, known as polysilicon. Metallurgical grade silicon must be purified to produce this grade, and the conventional purification process is elaborate and capital and energy intensive.

The solar PV industry also requires silicon of a relatively high degree of purity for the production of photovoltaic cells, also known as solar cells. However, the degree of purity required is less than that of the semiconductor industry. This intermediate grade of silicon, known as solar grade silicon, must have purity levels with certain amounts of dopants for the best performance in solar cell applications. Solar grade silicon has principally been produced using polysilicon, with certain elements, or “dopants”, added. However, this results in relatively high cost solar grade silicon. Solar grade silicon can also be produced with metallurgical grade silicon that has been purified to achieve the desired levels of boron and phosphorus and other dopants.

#### **Solar Grade Silicon**

Solar PV energy is emerging as one of the most viable sources of clean power, based on the cost and logistical advantages it has over alternative renewable energy sources. Over the long term, the solar energy industry is expected to experience significant growth driven by continued growth in the demand for electricity worldwide, the increasing preference for renewable energy sources and solar’s advantages over other “clean” alternatives. The production of solar PV energy involves the conversion of solar radiation into electricity using photovoltaic technology, which is the basis for the operation of solar cells. When solar cells are exposed to sunlight, an electric field is created and electricity begins to flow. The key component in the production of solar cells is high purity silicon, also known as solar grade silicon, defined as at least 99.999%, or “5-nines”, pure. The solar PV industry is expected to require significant growth in the supply of solar grade silicon to achieve these forecasts for solar cell and module production.

The majority of global supply of solar grade silicon is currently produced by companies whose primary focus had been the production of an ultra-pure grade of silicon (between 99.99999%, or “7-nines”, and 99.9999999%, or “9-nines”, pure), known as polysilicon, for the semiconductor industry. Polysilicon’s purity is higher than is usable for solar cells, and solar cell manufacturers must increase its conductivity by adding impurities, typically boron and phosphorus, through a process called “doping” to enable the solar cell to conduct electricity from the solar energy it captures. Most polysilicon is produced by blending metallurgical silicon with hydrochloric acid under high pressure and high temperatures through a chemical process. This creates a gaseous product that undergoes a “Siemens” process, which further purifies the silicon and deposits it on a small rod heated at high temperatures. This requires significant capital investment and energy costs. The supply of polysilicon has historically not kept pace with demand, mainly driven by the solar PV energy industry.

The Company produces solar grade silicon using a proprietary manufacturing process to purify low purity metallurgical grade silicon, which yields upgraded metallurgical silicon with a purity level of 99.999%, or “5-nines”. During 2008, the Company made strong progress in increasing its product’s purity, achieving average boron and phosphorus levels of 0.8 and 3.0 parts per million (“ppm”), respectively, and achieving levels as low as 0.5 ppm and 1.5 ppm. At these levels, the Company’s solar grade silicon can be successfully used in the production of solar cells. The Company’s solar grade silicon is principally sold to manufacturers of solar cells, who blend it together with polysilicon, or in some cases without further blending, in making ingots which are used to manufacture solar cells.

In March 2009, the Company announced that it will produce solar grade silicon at reduced levels that bring production in line with customer orders due to difficult market conditions and reduced demand for solar grade silicon. The Company will defer further capacity expansion of its solar grade silicon facility pending recovery of demand for solar grade silicon.

### **Silicon Metal**

Silicon metal is produced from quartz and other materials using similar smelting processes. It can be produced in different grades, primarily depending on the percentage of silicon in the product. Silicon metal generally has a silicon concentration of 98% or higher.

The principal markets for silicon metal are the chemical, electronics, aluminum and steel industries, and the aluminum industry. In the chemical and electronics industries, silicon metal is used in the manufacture of silicones and polysilicon. Silicones cover more than 4,000 different products, including lubricants, synthetic rubbers, water repellent fluids, building sealants, glues, high voltage insulators and permanent seals between glass and metals. They are also contained in cosmetics, shampoos, and other personal care products. Polysilicon is obtained from silicon metal and is further transformed for semiconductors, silicon wafers and solar cells. In the aluminum industry, silicon metal is used in the production of aluminum alloys. Aluminum containing silicon metal can be found in a variety of automobile components, including cast aluminum wheels, engine pistons and housings. The addition of silicon metal to the aluminum in the casting process improves castability and minimizes shrinkage and cracking. In finished aluminum products, silicon metal increases corrosion resistance, hardness, tensile strength and wear resistance.

Silicon metal, as a product category (excluding solar grade silicon), accounted for \$127.7 million of the Company’s consolidated revenues in 2008 (\$87.7 million in 2007).

The Company also sells silica fumes and dross, each of which are non-hazardous by-products from its manufacturing process. Silica fumes are extracted from dust collection systems from the emissions from the electric arc furnaces. Silica fumes are sold to the construction industry for use in cement for marine structures or bridge foundations or as a thermal insulator. Dross is generally collected as a residue from cleaning out the ladles from the manufacturing process. This material is sold to the iron foundry and steel industries who recover the silicon content for use in certain types of iron.

The following table summarizes the principal products of the silicon metal business, the principal industries to which it markets such products and examples of applications in which such products are used:

<u>Product</u>	<u>Industry Customer</u>	<u>Application</u>
<i>Silicon Metal</i>		
Silicon metal - chemical grade (> 99% purity)	Chemical/silicones	More than 4,000 different consumer products (sealants, rubber, fluids, lubricants, textiles, cosmetics)
Silicon metal - electronics grade (98% purity)	Electronics/chlorosilanes	Electronics (computer chip wafers, semi-conductors, solar cells, fiber optic cables), high purity fumed silica (pharmaceutical substrates, tires)
Silicon metal - aluminum grade ( $\geq$ 98.5% purity)	Aluminum/light metals	Alloying agent in aluminum mainly used for automobile components (engine pistons, housing, cast aluminum rims, wheel suspensions, engine blocks, cylinder heads, intake manifolds, oil pans)
<i>Other Products</i>		
Silica fumes	Construction	Ingredient in cement for marine structures or bridge foundations; thermal insulator
Dross and silicon-containing slags	Iron foundries/Steel	Manufacture of briquettes used to increase silicon content in certain kinds of iron

The Company warrants to its customers that its silicon metal meets their specifications. The Company provides a certificate of analysis with each shipment, based on samples taken during the process using in-house high precision equipment and trained operators. Product samples are routinely checked using X-ray spectrometry and various other techniques to analyze product chemistry. The Company has been qualified to serve as a preferred supplier to certain of its customers by meeting rigorous qualification tests. Although each customer has established its own testing requirements, qualification processes are generally designed to test for low variability of critical chemical elements as well as reliable and predictable chemical reactivity.

In March 2009, the Company announced that it will temporarily curtail production of silicon metal due to difficult market conditions and reduced demand for silicon metal in the chemical and aluminum industries. This operating mode will be implemented during the second quarter 2009. During the production curtailment period, the Company will supply silicon metal to customers from existing finished goods inventory.

## **Sales and Marketing**

The Company's sales and marketing activities for its silicon business are global, and are conducted by personnel located at the Bécancour facilities.

The customers of the Company's silicon business in North America represented approximately 44% of sales in 2008 (65% in 2007), and in Western Europe accounted for approximately 43% of sales in 2008 (33% in 2007). The largest customer of the silicon business represented approximately 20% of the silicon business' sales in 2008 (24% in 2007), while the largest five customers accounted for approximately 52% of such sales in 2008 (69% in 2007) and the largest ten customers accounted for approximately 74% in 2008 (85% in 2007). Sales to the chemical industry represented approximately 28% of the silicon business' sales in 2008 (48% in 2007), while the aluminum industry was the next largest at approximately 13% in 2008 (22% in 2007).

### **Solar Grade Silicon**

During 2007, the Company executed four long-term contracts for the supply of solar grade silicon. These four contracts provided for shipments of up to 6,000 metric tons of solar grade silicon per year starting in 2009. In March 2008, the Company executed a fifth contract with Q-Cells AG, the world's largest manufacturer of solar cells, to supply solar grade silicon in 2008 and 2009. In July 2008, the term of the contract with Q-Cells AG was formally extended for 2010 through 2013, with deliveries of 6,000 metric tons per year. The Company executed a sixth contract with CaliSolar, Inc., a privately held business in Sunnyvale, CA, in June 2008, to supply approximately 1,700 metric tons of solar grade silicon through December 2012. In July 2008, the Company executed its seventh contract with a leading global manufacturer of wafers for approximately 1,150 metric tons of solar grade silicon through December 2009. The Company shipped 1,045 metric tons of solar grade silicon in 2008, the substantial majority of which went to certain customers under long-term contracts, and the remainder of which was sold to other existing and prospective customers, mainly as samples for testing purposes.

The Company's long-term contracts for solar grade silicon provide for renegotiations on pricing in certain circumstances. The Company's on-going pricing negotiations will be significantly influenced by the prevailing market price of solar grade silicon at the relevant point in time, which will be influenced by the global supply capacity of solar grade silicon, as well as silicon metal and polysilicon.

### **Silicon Metal**

The Company sells its silicon metal under predominantly annual agreements. The Company's principal customers are multi billion dollar global companies that are leaders in their respective industries. The Company has also historically devoted attention to developing its sales to the Western European market for specialty silicon metal, and supplies to producers of silicones, polysilicon, fumed silica and automotive castings in Western Europe.

In recent years, the price of silicon metal has appreciated from historical lows of approximately \$0.50 per pound reached in 2003 to the \$1.70 to 1.90 range throughout most of 2008 (prior to the impact of the general macroeconomic environment). The significant price appreciation was the result of the confluence of a number of market conditions, including higher energy costs, a number of independent factors that have constrained supply, and increased market demand, especially from the solar energy industry, among others. More recently, the rapid deterioration in the global economy, including a slow-down in the chemical, aluminum and steel industries, has resulted in a retreat in the spot price of silicon metal.

As the Company continues to grow its solar grade silicon product line, an increasing portion of its silicon metal production is expected to be used as a feedstock for the Company's solar grade silicon production.

## **Manufacturing**

All of the manufacturing operations for the Company's silicon business are located at a site in Bécancour, Québec, which is approximately 125 km southwest of Québec City. The site is situated on the edge of the St. Lawrence River with access to major modes of transportation, including highway, rail and water. The Company owns the land at the Bécancour site, which covers an area of approximately 392,100 m<sup>2</sup> (96.8 acres).

### **Solar Grade Silicon**

The Company started to produce high purity silicon at a small scale production facility, which commenced operations in December 2006. This facility, which was originally located within the Company's silicon metal and ferrosilicon production facility at the Bécancour site (see below) and has since ceased operations, was used to test the Company's proprietary purification processes and to produce initial samples for prospective customers.

The Company started construction of a large scale solar grade silicon production facility in August 2007. This facility had three production lines, and is located in a newly-constructed building on the Bécancour site.

In the first quarter 2008, the Company announced plans to expand its nominal production capacity for solar grade silicon to 14,400 metric tons per year. This expansion, the construction of which commenced in the second quarter 2008, includes: the installation of purification equipment in the existing silicon metal production facility to enable processing of silicon metal in liquid form as a "first pass"; the reconfiguration of equipment at the existing 3-line purification facility and the installation of new purification equipment in such facility and in another new purification facility, under construction at the Company's Bécancour site, all of which will produce "second pass" and "third pass" material; and the construction of new buildings for packaging and shipping, maintenance and employee services, all of which will be located at the Company's Bécancour site. The Company exited 2008 with six production lines in operation and commissioned a seventh line in the last week of January 2009. When the expansion is completed, the Bécancour site will comprise 12 production lines in total with a cumulative nominal capacity of 14,400 metric tons per year.

The Company manufactures solar grade silicon by purifying silicon metal. The purification process begins with molten silicon metal and consists of multiple steps to yield solar grade silicon with the desired purity level (99.999%, or "5-nines", pure). The equipment and methods used by the Company to purify silicon metal in its solar grade silicon production are based on two patents pending manufacturing processes. In particular, during 2007, the Company filed a formal patent application with the U.S. and international patent authorities in respect of one of its processes for purifying low-grade silicon metal, involving a melting apparatus with an oxy-fuel burner. The Company has a 2006 priority date in respect of this patent application, and the international patent examiner has provided a positive report on such application. The Company has also filed a formal patent application in 2008 with the U.S. and international patent authorities in respect of another process for purifying low-grade silicon metal, by way of directional solidification with electromagnetic stirring. The international patent examiner has also provided a positive report on such application, which claims a 2007 priority date. It generally takes two to three or more years after a patent application is filed before a patent is granted, and the Company will need

to take steps during various phases in the U.S. and international application processes to pursue its patent applications. When and if the patents are ultimately granted, the Company will have exclusive rights for a period of twenty years from the filing date to prevent third parties from using the patented processes in the applicable jurisdiction. These patents are fundamental to the Company's purification processes and a key component in the competitive advantage of the Company's solar grade silicon product line. The Company has also filed other informal (or provisional) patent applications relating to solar grade silicon production.

In 2008, the Company purchased a furnace and equipment which facilitates the production of ingots from solar grade silicon and is being used for quality control and research and development purposes at the Bécancour facility. Using this equipment, the Company has made progress to date in the optimization of the ingot making process using its solar grade silicon. The Company's continued efforts in this area will enable customers to improve the yields they are achieving with the Company's solar grade silicon, thereby lowering their overall cost of production, as well as increase the efficiency level of the solar cells they are manufacturing with such material. Some of the Company's customers have achieved cell efficiency levels of more than 16%, comparable to those achieved with polysilicon. Working with the Engineering Systems Division of AMG, a leading manufacturer of the furnaces used for ingoting, the Company is continuing to develop new processes and methodologies that increase the usefulness of the Company's solar grade silicon for its customers. See "Item 11 – Interest of Management in Material Transactions" below.

### **Silicon Metal**

The Company produces silicon metal at the Bécancour site in a manufacturing facility with three electric arc furnaces, having a nominal annual capacity of approximately 50,000 metric tons. Two of these furnaces are dedicated to the production of silicon metal and one that can be used for the production of either silicon metal or ferrosilicon. This facility, which is ISO 9002 certified, started production in 1976 and is still the newest facility for the production of silicon metal and ferrosilicon in North America. This facility includes buildings having a size of 24,140 m<sup>2</sup> and covers an area of approximately 243,000 m<sup>2</sup>.

Silicon metal is produced by smelting quartz with carbon substances (typically low ash coal and/or charcoal) and woodchips. Computerized process controls measure the mixture of raw materials. The mixture is fed into the top of a submerged electric arc furnace by automatic conveyors. Electric power is delivered to the furnaces by carbon electrodes. The electrodes act as conductors of electricity in each furnace, generating heat in excess of 3,000 degrees Celsius. At this temperature, the carbon, acting as a reducing agent, combines with the oxygen in the mixture to free the molten silicon metal. Molten silicon metal is tapped out of the furnaces into ladles, where it may be refined by injecting oxygen, other gas mixtures or other ingredients to meet specific customer requirements.

The emissions from the electric arc furnaces are carbon dioxide with certain particulates. These particulates are collected by dust collecting hoods and passed through a dust collection system in which silica dust is filtered out of the process gases. The resulting by-product is silica fumes. Another by-product is dross collected from the ladles.

One of the electric arc furnaces at the silicon metal production facility uses a compound electrode process patented by the Company, which permits the production of silicon metal at a lower cost than with conventional electrodes used by other producers. The other two electric arc furnaces also use a proprietary compound electrode process licensed to the Company, which also provides a cost advantage on silicon metal dedicated furnaces. This facility also uses a proprietary water granulation technology that creates greater uniformity in the product and improves product yield.

## Competition

### Solar Grade Silicon

The Company's solar grade silicon product line competes with traditional producers of silicon metal, such as Dow Corning and Elkem, which supply upgraded metallurgical silicon to the solar PV energy industry. The Company also competes directly against producers of polysilicon, such as Wacker Chemie AG, Renewable Energy ASA, Hemlock, MEMC and Tokuyama. Polysilicon has historically been the principal raw material in the production of solar cells.

The following are competitive strengths of the Company's solar grade silicon product line:

- ***Proprietary Process for Purifying Metallurgical Grade Silicon.*** The Company's proprietary technology for purifying metallurgical grade silicon into high purity silicon metal is a significant competitive advantage of the Company. The most important specifications of solar grade silicon for manufacturers of solar cells is purity, in particular boron and phosphorus levels. During 2008, the Company made strong progress in increasing its product's purity, achieving average boron and phosphorus levels of 0.8 ppm and 3.0 ppm, respectively, and achieving levels as low as 0.5 ppm and 1.5 ppm. The Company intends to continue to improve upon these purity levels, which should expand its potential customer base as well as command higher prices in the market.
- ***Cost Advantages Relative to Polysilicon.*** The Company's proprietary process offers significant cost advantages based on efficiencies in three main areas: capital expenditures, raw materials and electricity used in the solar grade silicon production process. The capital investment required for the production of solar grade silicon from polysilicon is significant. In contrast, the Company's process involves purifying silicon metal to greater than 99.999% purity with the appropriate levels of the boron and phosphorus. The simplicity of the Company's method and relatively low energy requirements result in capital investments that are as little as one-tenth and production costs that, at large-scale capacity, could be as little as half those required to produce polysilicon. Finally, the Company's process allows the use of less expensive raw materials to produce solar grade silicon that meets our customers' specifications.
- ***Ability to Rapidly Increase Production Capacity.*** The Company also has a significant advantage in the time it takes to add production capacity for solar grade silicon. The Company can significantly expand capacity in less than one year, whereas polysilicon producers, in contrast, typically require at least three to four years to do the same. Moreover, existing market participants are generally resistant to adding capacity due to both the significant investment and the long time horizon.
- ***Access to Silicon Metal.*** The Company's silicon metal production facility, with approximately 50,000 metric tons of annual capacity, is the second largest in North America. Having control of such a significant volume of feedstock, produced at a cost below the market price for silicon metal, enhances the Company's competitive position for solar grade silicon.

### Silicon Metal

The Company's silicon metal product line competes globally, primarily on the basis of product quality, service and price. Its competitors include silicon metal producers, Ferroatlantica S.L., Globe Metallurgical, Inc., Elkem ASA and Fesil ASA. Chinese producers have also developed a large market share of silicon products used in the western world.

The following are competitive strengths of the Company's silicon metal product line:

- ***Technologically Advanced Production for High Quality Products.*** Although it was built over 30 years ago, the Company's silicon metal production facility is one of the industry's most technologically advanced. It uses special water granulation technology to gain cost and quality advantages. Other manufacturing technologies deployed in this facility allow the Company to produce various grades of silicon metal and ferrosilicon products for applications with demanding product specifications. The Company also has quality control procedures that allow it to consistently meet its customers' demands.
- ***Competitive Cost Position.*** The Company is the only North American producer of silicon metal to use compound electrodes, which substantially reduces electrode costs. Furthermore, the location of the Bécancour site provides access to competitively priced raw materials and electricity. The Company believes that its silicon metal production facility is one of the low cost producers in North America. Due to its competitive cost position in the production of silicon metal, the Company expects that it will be cost effective to source from its own silicon metal production facility its feedstock requirements for the solar grade silicon production at the Bécancour site.
- ***Long-Term Relationships with Market-Leading Customers.*** The largest customers of the Company's silicon business are multi-billion dollar global companies that are the leading companies in their respective industries. Its principal silicon metal customers are leading producers for the chemical, aluminum and electronics industries.

## **Raw Materials**

The principal raw materials and cost components in the Company's production of solar grade silicon are silicon metal, natural gas and oxygen. The principal raw materials and cost components in the Company's production of silicon metal are electricity, quartz, coal and woodchips.

Electricity is supplied to the Bécancour site by Hydro-Québec at rates that are comparable to other large power users in the Province of Québec. Contracted power is sufficient to meet the Company's current and anticipated power requirements.

A large portion of the Company's requirements from quartz is sourced from a mine located in Lac Malbaie, Québec, which is approximately 135 km northeast of Québec City. The Company leases the mine from the Québec Natural Resources Department under a lease that expires in 2016 and is renewable for another ten years at the Company's option, provided the mine is in compliance with all environmental requirements. The Company has a long-term contract with a third party, with whom the Company has had a relationship since 1976, for the operation of the mine, including extraction and processing of the quartz. The contract was renewed in 2007 and expires in 2012. The Company also purchases a large portion of its requirements for quartz from third parties.

Coal is sourced from a limited number of third party suppliers, from the United States and Columbia, and is of a special grade to ensure a high quality silicon metal.

Wood chips and wood blocks are sourced from a variety of third party suppliers in Québec and the Northeastern United States.

Although the Company produces silicon metal, it also purchases silicon metal on the spot (or open) market to balance its production. The Company also expects that an increasing portion of its silicon metal production will be used as a feedstock for the Company's solar grade silicon production.

## **Employees**

As at December 31, 2008, the Company's silicon business employed 360 employees, including 92 salaried and 268 hourly employees.

The hourly workers at the Company's Bécancour site are represented by the Communication, Energy and Paper Union under a collective bargaining agreement that expired at the end of April 2008. The Company is currently in discussions with the Communication, Energy and Paper Union to renew the collective bargaining agreement. The Company believes that relations with its employees in the silicon business are good.

The Company employs engineers, technicians and other skilled employees who have expertise in the manufacturing processes utilized by the Company in its silicon business. The Company's key employees have developed several proprietary technologies, including the patents-pending manufacturing process for the production of solar grade silicon.

## **Environmental Matters**

Silica fumes, which is a by-product of silicon metal production, was historically disposed of near the Company's Bécancour facilities. Disposal of silica fumes at this site ceased in 1993 when a market for selling silica fumes started to develop. In 1995, the Company started to extract silica fumes from this disposal site for sale to third parties, and these extraction operations are on-going. This disposal site, as well as all others in the Province of Québec, are now subject to a new regulation regarding disposal sites. The Company is working with representatives of the Ministry of the Environment (Québec) to develop a plan, which will likely involve the extraction of the remaining silica fume over a 5 year period and reporting on the monitoring of various elements subsequent to completion of the operations. The Company expects to be able to continue to sell the extracted silica fumes. A detailed plan was submitted to the Ministry in July 2008.

## **ITEM 4. DESCRIPTION OF THE BUSINESS – MAGNESIUM GROUP**

### **Products and Markets**

Magnesium metal is used in a wide variety of applications where its light-weight, excellent machinability and chemical and mechanical properties make it a preferred alternative to aluminum and other materials. The magnesium market is segmented into two broad categories: commodity and specialty. Commodity magnesium (99.8% pure magnesium or less purity magnesium), which represents over 90% of the magnesium market, is generally sold in ingot form and used as an alloy with aluminum in the production of aluminum beverage cans, in the manufacture of die-cast magnesium automotive parts, and for the desulphurization of steel. The Company's magnesium business is focused on specialty magnesium, namely the production of higher value-add products. These fabricated products require sophisticated know-how of processing and fabrication techniques. The Company's magnesium extrusion and fabrication expertise extends from machining, surface engineering, painting and heat-treating to forging, welding, bending and rolling.

The Company's specialty magnesium products are used in a broad range of specialized applications and are marketed to the water heater, construction, consumer products, sporting goods and container industries, amongst others. The Company has a strong market share in many of its magnesium product areas, including magnesium anodes for the North American water heater industry, where magnesium's chemical reactive properties are employed to resist corrosion.

The Company's sales of magnesium anode rods, as a product category, were \$36.2 million in 2008 (\$29.4 million in 2007).

The Company's magnesium business also sells specialty high purity magnesium, used in the fine chemical and pharmaceutical industries, as well as specialty calcium and strontium metals alloys, primarily used in lead alloying and debismuthizing and aluminum alloying.

The following table summarizes the principal products and uses of the Company's magnesium business:

*Magnesium Products*

Extrusions	Used as components of other manufactured goods such as forging stock, concrete and other tools, sporting goods, luggage frames, storages containers and other specialty applications
Sacrificial anodes	Used for corrosion protection of domestic and industrial water heaters, oil, gas and water pipelines and underground infrastructure
High purity magnesium metal	Used in the production of vitamins, pharmaceuticals and agricultural food supplements
	Used as a chemical reductant for the production of specialty metals, including, beryllium, titanium and zirconium
	Used for casting high quality magnesium alloy aerospace components

*Specialty Metals and Alloys*

MAG-CAL™	A patented alloy used to remove bismuth from lead
CAL-AL™	Used in the production of calcium/lead alloys for the production of maintenance-free automotive batteries

**Sales and Marketing**

The magnesium business' products are marketed through a multilingual sales force of experienced sales and marketing personnel with technical, engineering and/or metallurgical backgrounds from sales offices in the United States, Europe, Australia and Japan.

The magnesium business' customer base is diversified, both in terms of numbers of customers and geographic regions. In 2008, the largest five customers accounted for approximately 55% (48% in 2007) of the total magnesium business' sales, with the single largest customer accounting for approximately 31% (28% in 2006) of such sales. In 2008, approximately 96% of the magnesium business' sales were made

outside of Canada (92% in 2007): approximately 70% were made in the United States (67% in 2007); approximately 10% were made in Europe (6% in 2007); approximately 8% were made in Australia, Japan and other Pacific Rim countries (9% in 2007); and approximately 8% were made in Mexico and South America (9% in 2007).

During 2008, the Company commenced renegotiations of its long-term contracts with three of its principal customers for magnesium anode rods, for the water heater application. Such contracts provided for the supply by the Company of virtually all of such customers' volume requirements of magnesium anode rods, and are being renegotiated on the basis of a mutual understanding that price adjustments are necessary. While the Company's volume supplied under such renegotiated contracts could decline, the Company believes that such customers will continue to source a significant portion of their requirements for magnesium anode rods from the Company.

### **Manufacturing**

The principal manufacturing facility for the Company's magnesium business is located in Aurora, Colorado, which is near Denver, Colorado. This is a magnesium extrusion and fabrication facility, which processes magnesium billet using three extrusion presses varying in size from 500 to 4,200 tons. Additionally, the facility is equipped with fabrication equipment. The facility produces sacrificial anodes for the appliance market, cathodic protection anodes for steel structures, concrete tools and numerous specialty extrusions for a variety of applications. The Aurora facility is ISO 9001:2000 certified.

On June 6, 2008, the Company announced the closure of its Haley, Ontario manufacturing facility, as part of the Company's strategy to restore its magnesium business' profitability. This facility supplied the cast magnesium billet used in the Company's magnesium extrusion operations in Aurora, Colorado. All of these supplies are now being provided by outsource partners. This facility also produced specialty magnesium granules and turnings which are now produced in the Company's Nuevo Laredo, Mexico facility.

The Company's magnesium business also has facilities in Nuevo Laredo, Mexico, which is near Laredo, Texas, and in Baulkham Hills, Australia, which is near Sydney in New South Wales. These facilities are used for the fabrication and assembly of sacrificial magnesium anodes for domestic water heating systems, and are located near key customers' water heater manufacturing facilities. The Baulkham Hills facility is also used as a warehouse for sales of other products to customers located in the South Pacific region.

The table below sets forth the location and approximate size of the Company's production facilities for its magnesium business, as well as whether such facilities are leased or owned, as at December 31, 2008.

<u>Location</u>	<u>Size (m<sup>2</sup>)</u>	<u>Ownership</u>
Aurora, Colorado, United States	10,661	Leased
Haley, Ontario, Canada	27,127	Owned
Nuevo Laredo, Mexico	3,200	Leased
Baulkham Hills, New South Wales, Australia	740	Leased

The Company has outsourced some of its basic extrusion production to third party suppliers in China, to reduce costs. The Company has also outsourced some of its fabrication operations, to be nearer to customers and to improve customer service. Personnel at the Aurora facility coordinate activities with the suppliers and contract manufacturers.

During 2008, the Company focussed on positioning its magnesium business for a return to profitability and strategic divestiture. As discussed above, given the low manufacturing cost environment in China, the Company successfully transferred activities previously undertaken at its Haley, Ontario magnesium manufacturing facilities to China, leading to the closure of that facility in June 2008. Additionally, high labour content activities related to water heater anodes, formerly undertaken in the Company's Aurora, Colorado facility, were successfully moved to the Company's manufacturing facility in Nuevo Laredo, Mexico supported by the Chinese supply chain. These moves have provided the Company's magnesium business with a competitive core to be built upon in the future or leveraged by a strategic purchaser. Subsequent to the year end, the Company announced its intention to wind down production operations at its facility in Aurora, Colorado and to close that facility later in 2009. The Company also announced in February 2009 its intention to pursue the transactions contemplated by the non-binding letter of intent with Winca Tech Limited, its primary China-based supplier, to transfer the Company's magnesium business into a new merged business, to be known as Applied Magnesium International, that would include all of Winca's magnesium operations and would be majority owned by Winca. If this proposed transaction is completed as currently contemplated, the Company will have significantly reduced its exposure to the magnesium market, holding only a minority interest in the merged business.

## **Competition**

The Company believes it is the largest producer in the world of value-added magnesium fabricated products. Current data indicates that there are approximately ten extruders of magnesium in the world, the majority of which are in China. When compared to the Company they are believed to be small to medium in size. Many of these extruders focus on a limited range of less technologically advanced products. The Company's most significant competitors are located in China, who have less expertise than the Company in producing specialized magnesium extruded and fabricated products.

The Company also faces competition from other light metal fabricators, primarily aluminum. The Company has extrusion capabilities that enable it to produce aluminum extrusions. A customer's decision whether to use magnesium versus aluminum as the metal for its extruded product need is based on a number of criteria, including the desired physical and mechanical properties and a cost-benefit analysis of using magnesium over aluminum.

The following are the Company's competitive strengths of its magnesium business:

- ***Technical Expertise in Manufacturing.*** The Company is a world leader in magnesium extrusion and fabrication technology. Its expertise in manufacturing processes for extrusions allows it to increase productivity, thereby reducing capital costs and increasing throughput.
- ***Expertise in Product Design and Development.*** The Company is a leader in application design for magnesium extrusions, and its Aurora facility is the center for magnesium extruded and fabricated product development. The Company has particular expertise in designing magnesium extruded products having a complicated geometry, whereas most of the Company's competitors have limited expertise and can generally only compete effectively in respect of simple designs. The Company also collaborates with industry, educational and customer partners in its product development. The

Company is capable of developing and producing products from bench scale to commercial scale more quickly and with less market risk.

- ***Product Quality and Reliability.*** The Company believes that it has superior product quality and technical service in its magnesium business, relative to its competitors, which allows the Company to differentiate its product offerings and offer higher value products. The Company has also located some of its fabrication operations close to its key customers' manufacturing sites, which allows close interaction with those customers in respect of deliveries and quality, thereby improving reliability of supply.
- ***Strong Long-Term Customer Relationships.*** The Company's product quality and technical service in its magnesium business have contributed to its long-term customer relationships. These relationships have also been strengthened through consultation with customers' technical departments to develop and refine their magnesium products requirements. The Company has also co-developed products for its customers, which the Company believes makes it a valued partner to such customers.

### **Raw Materials**

The Company does not produce the magnesium metal that it uses in producing magnesium extrusion billets, which are the feedstock for the Company's magnesium extruded products or for its other specialty magnesium products. In early 2008, due to the substantial fluctuations in the price of magnesium, the Company's fixed-price supply contract with its Chinese supplier was terminated. The Company purchased the remainder of its magnesium metal requirements on the open market, from Chinese and other suppliers, through short-term supply commitments.

The price of magnesium metal purchased by the Company fluctuated substantially in 2008. The Company attempts to effect price increases to its customers to offset these increased costs, and for those customers whose products are comprised of purchased magnesium, the Company implements price adjustment clauses when negotiating new contracts or renegotiating existing contracts. A price adjustment clause allows the Company to increase or decrease its product prices to customers based on changes in raw material prices.

All of the Company's calcium based products are currently purchased under an exclusive supply agreement with a Chinese supplier.

### **Employees**

As at December 31, 2008, the Company's magnesium business employed 130 employees, of which 46 were salaried and 84 were hourly employees. The Company also employed the services of seven contractors.

The 48 hourly employees at the Nuevo Laredo facility are governed by a collective agreement with the local union of the Export Assembly Industry of Nuevo Laredo, Tamaulipas, which expired in April 2008 and is currently under renegotiation. The hourly employees at the Aurora and Balkham Hills facilities are non-unionized. The Company believes that relations with its employees in the magnesium business are good.

## Environmental Matters

The Company filed a mines closure plan with the Ministry of Northern Development and Mines (Ontario) in February 2006 with respect to the mining operations at its Haley facility, together with appropriate financial assurance covering its obligations pursuant to the plan. The Company was required to provide financial assurance covering the costs of active closure of \$1.7 million through an initial payment of \$336,540 and payments of \$269,232 per year over a period of five years. The Company has paid the initial payment and the first three years' payments. The filed mine closure plan consists of 45 years of progressive rehabilitation followed by five years of active closure and a ten-year post-closure period. The mine closure plan and supporting financial assurance reflected only anticipated active closure costs and did not reflect the cost of all future expenditures that might be required for long-term monitoring. The Company additionally filed a Notice of Project Status for the Haley Plant in December 2008 resulting in both the Haley plant and mining operations being in temporary suspension under the *Mining Act* (Ontario). As Haley is no longer in operation, a certified amendment to the Haley operation closure plan will be filed during 2009. The Company will be required to perform the work outlined in the amended mine closure plan, which principally includes the rehabilitation of the mining site and demolition of buildings relating to the former mining operations. To the extent that the actual closure costs exceed the amount of the financial assurance, the Company will be responsible for such excess costs.

With respect to the Company's former manufacturing facility at Beauharnois, Québec, which it operated from 1950 to 1989, the Company is required to investigate the site to identify potential environmental issues, to conduct soil and water sampling if warranted, and to propose a remediation plan. The Company has prepared such a remediation plan, which has been approved by the Ministry of the Environment (Québec), effective October 2003. The remediation plan includes demolition of plant installations, soil and groundwater investigation, closure of ponds, elimination of dry residual materials present on the site, removal of backfill and stockpiles, shaping, covering and sowing to control drainage slopes for existing material piles. The remediation plan also requires an annual environmental follow-up program for groundwater to measure the impact of the work commencing in the tenth year after the work began. The cost to complete the remediation work has been estimated at \$1.1 million spread over the 10-year period covered by the plan. This estimate does not include the cost of groundwater monitoring required after the completion of the 10-year plan or the cost of any additional clean-up that may be shown to be required by such monitoring. The Company sold the Beauharnois property for \$660,000 in December 2004 to a third party buyer, which agreed to assume the Company's remediation obligations. Transfer of title to the property will occur in October 2013, subject to the buyer's completion of the remediation plan on behalf of the Company. In the event that the buyer fails to fulfil its obligations, the property will revert to the Company, which will be entitled to retain the purchase price. The Company has engaged an environmental consultant to monitor progress of the remediation plan and, as at the end of 2008, it was estimated that approximately 15% of the remediation work was complete.

During the mid-1990s, a groundwater pump-and-treat system was constructed and continues to be operated on a portion of the Company's former adhesives facility in North York, Ontario. A hydrogeologic investigation conducted in February 2005 identified environmental risks associated with potential source areas at the site arising out of historical operations which had not been addressed by prior remedial activities. The Ministry issued an order in October 2007 requiring the Company to implement the plan that it had developed for further investigations and remedial activities. Pursuant to the plan, the Company has repaired and upgraded the pump-and-treat system, and the Company expects that, with continual operation of the system, active remediation of the groundwater is occurring and contaminant concentrations within the plume will decrease over time. The Company submitted its final report to the Ministry in March 2008 and a meeting to discuss the results and whether any added remedial action is

required to be taken, either voluntarily or pursuant to a further order, was held in February 2009. It was determined at that time that the Company would complete further groundwater monitoring activities and future requirements would be based on these results.

## **ITEM 5. RISK FACTORS**

The Company's businesses are subject to significant risks and uncertainties. These risks and uncertainties, together with certain assumptions, also underlie the forward-looking statements made and forward-looking information contained in this Annual Information Form and may cause the Company's actual results to differ materially from management's expectations. Although we believe that we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may also adversely affect our business, financial condition, results of operations, cash flows, liquidity and the trading price of our common shares.

### **Economic and Financial Risks**

#### ***Deteriorating global economic conditions are creating substantial risks and uncertainties***

Global economic conditions have deteriorated rapidly over the last several months as a result of the financial crisis that erupted in North America, Europe and Asia during 2008. These developments, which include the collapse of certain financial institutions, significant tightening of credit, loss of consumer and investor confidence and recession, are having and will likely continue to have a broad-reaching impact on the Company's businesses and the industries in which they operate. The severity, timing and extent of such impact are not yet fully understood. Many of the Company's customers have reduced or deferred their purchases and are experiencing financial constraints. Such customers may continue to curtail or delay their purchases, which would reduce the Company's revenues, or may experience even more severe financial difficulties, which could significantly increase the Company's credit risk or reduce the Company's liquidity. Moreover, the pace of deterioration of economic conditions has continued to accelerate since the end of fiscal 2008, particularly impacting the stock markets, which have experienced unprecedented volatility. If these circumstances persist or deteriorate further, the Company's ability to raise capital in the debt or equity markets could be significantly limited, which could restrict the Company's ability to pursue its strategies or financial objectives. Any one of these developments could adversely affect the Company's business, financial condition, results of operations, cash flows, liquidity and trading price of the Company's common shares.

#### ***The Company's future growth plans and strategic objectives could require substantial cash resources and a failure to secure such resources could have a material adverse effect on the Company's businesses or investments.***

The Company's growth plans and strategic objectives will require working capital and capital expenditures. The Company plans to increase its production capacity for solar grade silicon and may also require capital expenditures for acquisitions, mergers, business combinations, joint ventures, or strategic business alliances or partnerships in respect of its businesses or investments. The Company has also invested a significant amount of working capital in inventories and accounts receivables to support the development of its solar grade silicon product line. The Company expects to fund its requirements for working capital and capital expenditures from operating cash flows, existing cash balances, existing credit facilities, potential future debt financing, customer deposits, if any, and other sources it deems appropriate. These sources of financing may not be available to the Company when required in the amounts needed or on acceptable terms for reasons including, without limitation, the unavailability of external financing

sources on satisfactory terms; changes in the terms of existing financing arrangements; a deterioration in the financial condition of the Company; customers not being able to pay the required deposits or demanding the return of deposits; and the Company not being able to generate expected levels of operating cash flows. If sufficient sources of financing are not available in the future for these or for other reasons, the Company may not be able to fully implement its growth plans or strategic objectives, which could have a material adverse effect on the Company's businesses or investments.

***The Company is subject to liquidity risks.***

Liquidity risk arises through excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available sources of funding in order to meet its liquidity requirements at any point in time. The Company attempts to achieve this by maintaining cash positive operations and through the availability of funding from committed credit facilities. On October 21, 2008, the Company's credit agreement was amended to increase the total maximum credit lines to US\$50.0 million. As at December 31, 2008, the Company was holding cash and cash equivalents of \$4.5 million and had undrawn lines of credit available to it of US\$6.2 million. If sufficient sources of funding are not available in the future, the Company may not be able to fully implement its growth plans or strategic objectives, which could have a material adverse effect of the Company's business or investments.

***The Company may be unable to borrow or repay debt under its credit agreement.***

The Company's credit agreement limits the Company's financial flexibility in a number of ways and further restricts the Company's ability to borrow funds if it does not achieve specified financial ratios. The credit agreement also restricts the Company's ability to incur additional indebtedness, sell assets, create liens or other encumbrances, incur guarantee obligations, make certain payments, make investments, loans or advances and make acquisitions beyond a certain level. A failure by the Company to achieve specified financial covenants or otherwise to comply with the financial and other restrictions contained in the facilities agreement could lead to an event of default thereunder, which could result in an acceleration of outstanding indebtedness. In such event, the lender under the credit agreement could elect to declare all amounts outstanding thereunder, together with accrued and unpaid interest, to be immediately due and payable. In addition, the majority of the Company's assets, including the capital stock of its material subsidiaries, have been pledged as collateral under the credit agreement, and the lender could foreclose on that stock upon an event of default. These events would have a material adverse effect on the Company's liquidity, financial condition and results of operations.

**Risks Relating to the Silicon Business**

***There are risks associated with the Company's existing long-term contracts***

The Company has several long-term commercial contracts with customers for the supply of solar grade silicon. These contracts provide for certain volume purchase and delivery commitments by the customers and the Company, respectively, during specified periods over the term of each contract. Based on its current production capacity and expansion plans, and experience to date in fulfillment by customers of their volume purchase commitments, the Company expects to be able to satisfy all of its volume delivery commitments regarding solar grade silicon. However, actual customer fulfillment of volume purchase commitments in the future is uncertain, and the full production capacity may not be available while the Company is in the ramp-up stage of its expansion. An inability by the Company to satisfy the volume requirements under these contracts or other purchase orders with its customers, or a shortfall in the volumes of solar grade silicon actually purchased by these customers relative to the Company's

expectations, or changes in the timeframes within which these customers take delivery, could have a material adverse effect on the Company's financial position, results of operations and liquidity.

The Company's contracts with customers also provide for specifications for the solar grade silicon to be delivered, and various quality control and testing methodologies to verify compliance with such specifications. Such specifications, quality controls and testing methodologies are expected to evolve as the Company and its customers continue to build experience in using the Company's solar grade silicon for solar PV applications. Any inability of the Company to address customer issues in this regard may delay or reduce deliveries of solar grade silicon, or result in termination of one or more of the long-term commercial contracts, any of which could also have a material adverse effect on the Company's financial position, results of operations and liquidity.

***There is no assurance of the timing and extent to which the Company will be able to achieve its solar grade silicon production cost targets***

The Company anticipates that its variable cost of production for solar grade silicon will fluctuate in the short-term, as it continues to augment its new production facilities, and refine and optimize production processes at such new manufacturing facilities. The Company has established production cost targets for the purification of solar grade silicon based on long term production levels which it has not yet achieved principally because it is still in the production ramp-up stage.

The key factors that will influence the Company's achievement of its target include:

- Quality of silicon metal feedstock – Lower impurity levels in the silicon metal that the Company uses as a feedstock for the purification process will provide higher yields of solar grade silicon per volume input into the process.
- In-house production of molten silicon metal feedstock – Cost reductions should be achieved once the current expansion project is complete and the Company is able to utilize molten silicon metal produced at its own facility as feedstock for the purification process.
- Scale – The Company expects to realize cost savings per kilogram when the current level of production of solar grade silicon is expanded to a planned level of 14,400 metric tons per year, based upon spreading overhead costs across a larger volume, and production efficiencies related to a more flexible plant configuration.
- Continuous process improvement – The Company expects to lower costs of production by realizing numerous small process improvements over time.
- Customer Requirements – The specific purity levels required by the Company's current and future customers of solar grade silicon will impact the amount and nature of the processing that the Company would have to perform.

There is no assurance of the timing and extent to which the Company will be able to achieve its solar grade silicon production cost targets, and a failure to achieve such targets could have a material adverse effect on the Company's financial position, results of operations and liquidity.

***Lower solar grade silicon and silicon metal selling prices could adversely affect the Company's results of operations***

Some of the long-term commercial contracts for solar grade silicon provide for renegotiations on pricing in certain circumstances. These pricing negotiations will be significantly influenced by the prevailing market price of solar grade silicon, and there is a risk that such prevailing market price will decline, whether as a result of any additional UMSi or polysilicon production capacity becoming available or due to declining demand. Such a price decline on incremental volumes could have a material adverse effect on the Company's financial position, results of operations and liquidity.

The Company's revenues, earnings and cash flows from the sale of silicon metal are sensitive to changes in market prices. In order to manage some of the price volatility related to these products, the Company enters into contractual arrangements to fix the selling prices for certain periods, generally a calendar year, where possible. However, the Company may not be able to reduce its exposure to such metal price risks.

***The Company's solar grade silicon business may be harmed if it does not maintain or achieve its purity objectives in respect of solar grade silicon***

The Company produces solar grade silicon using a proprietary manufacturing process to purify low purity metallurgical grade silicon, which yields upgraded metallurgical silicon with a purity level of 99.999%, or "5-nines", with levels of phosphorus and boron that are contemplated under existing contracts. The Company has achieved a boron level of 0.5 parts per million ("ppm") and a phosphorus level of 1.5 ppm, and is striving to consistently maintain these levels. Achieving and maintaining these levels could allow customers to increasingly utilize unblended versions of the Company's solar grade silicon in their manufacturing activities, which could enhance the Company's competitive advantage and may allow for increased selling prices and margins. However, achieving and maintaining these levels may also increase the Company's production costs for solar grade silicon. The Company's ability to consistently achieve these levels also depends on the quality of the silicon metal feedstock used in the purification process, whether such silicon metal is produced by the Company or purchased from external sources. The Company intends to invest certain resources to achieve improvements in purity levels of its solar grade silicon. However, there is no assurance that the Company will consistently achieve these or any higher purity levels for its solar grade silicon.

***The Company's planned additional expansion of solar grade silicon production capacity in Bécancour presents risks that could materially adversely affect the Company's results of operations.***

The Company plans to eventually increase its nominal production capacity for solar grade silicon to 14,400 metric tons per year. However, due to the uncertainties and risks discussed above, the Company announced in March 2009 that it will defer further capacity expansion of its solar grade silicon facility pending recovery of demand for solar grade silicon. This expansion, when it proceeds, will involve significant risks to the Company's silicon business, including potential delays in construction of the new facilities and commissioning of equipment and unanticipated costs that may exceed the Company's capital budget for the project. There may also be delays in achieving the full production capacity while the Company is in the ramp-up stage in the new facilities. Failure to complete this expansion on time to meet volume commitments and on budget could have a material adverse effect on the Company's financial position, results of operations and liquidity.

***Risks associated with the pricing and availability of raw materials for the Company's silicon business could have a material adverse effect on the Company's results of operations.***

Coal is a significant raw material in the production of silicon metal, and the market price of coal is an important factor influencing the Company's cash flows and earnings. There are only two known reliable production areas of coal that are geographically viable to the Company, each with a limited number of producers. The prices of coal have risen in the last few years, and more significantly since the beginning of this year, principally due to supply shortages from such areas. The Company has its own internal supply of quartz, through a mining lease. The Company has determined that alternate suppliers of quartz have superior quality for the production of solar grade silicon feedstock and accordingly have begun to procure more quartz from third party suppliers. The Company also buys silicon metal in the spot (or open) market to balance its production and thus is subject to fluctuations in market price, which have increased due to supply and demand forces. An increase in the pricing for, or limitations on the availability of, these raw materials could have a material adverse effect of the Company's financial position, results of operations and liquidity.

***Customer capabilities in producing ingots could adversely affect the Company's solar grade silicon business***

The next step in the solar value chain downstream from the Company is the transformation of solar grade silicon into ingots which are cut into "bricks". The Company has discovered that there is a significant range of experience in its customer base with respect to this vital transformation. The quality of the resulting solar wafers can be quite different depending upon the process adopted for ingot making. To that end the Company and its parent have focused efforts to develop processes to optimize the quality of ingots and bricks made from its solar grade silicon. There is no assurance that customers will adopt appropriate processes and therefore there remains a risk that certain customers will not achieve the results they expected from solar grade silicon.

***Evaluating the operations and prospects of the Company's solar grade silicon product line may be difficult because of its limited history***

There is limited historical information with which to evaluate the Company's solar grade silicon product line, which began on a trial basis in 2006. As such, the historical financial results for this product line do not provide a meaningful basis for evaluating its future financial performance. The prospects for the silicon business should instead be evaluated in light of the risks, experiences and challenges an early growth stage company would typically experience in developing and manufacturing new products in a rapidly growing market, in addition to the more specific risks and uncertainties identified in this section.

***The Company's silicon business is dependent on electrical power and any interruption in power or increase in electricity costs could have a material adverse effect on the Company's results of operations.***

The production of silicon metal is energy intensive. The Company is dependent on third parties for the continuous supply of electricity for its smelting and other operations in Bécancour. During the first quarter of 2007, the Bécancour facilities experienced above average stoppages in electricity supply during peak times, which caused inefficiencies in production. The Company took measures in 2008 to mitigate the likelihood of such interruptions, but there is no assurance that it will not be subject to power interruptions in the future. The price of electricity in Québec has been relatively stable in the past several years, though it has varied significantly in world markets. The global fluctuations in the price of electricity may lead to similar fluctuations in Québec in the future, largely as a result of market conditions, including factors beyond the Company's control. A disruption in electricity supply or increase in electricity prices

could have a material adverse effect on the Company's business, financial condition and results of operations.

***The Company's silicon business may be harmed if it is unable to adequately protect its intellectual property.***

The success of the Company's solar grade silicon product line depends to a large degree on the protection of its intellectual property rights, including proprietary technology, information, processes and know-how. Such protection is based on trade secrets and patents, including two patents pending in respect of the manufacturing process for the production of solar grade silicon.

The Company has applied for patent protection in respect of certain manufacturing processes relating to the purification of low-purity silicon metal for the production of solar grade silicon, and intends to continue to pursue such applications and to make additional applications as applicable. The patent positions of the Company involve complex legal and factual questions and, therefore, the success of any applications and the validity and enforceability of any patents granted cannot be predicted with certainty. Patents may be challenged, deemed unenforceable, invalidated or circumvented or infringed by competitors. The validity, enforceability and commercial value of these rights are therefore uncertain. The Company may also determine not to apply for patents for certain manufacturing processes in order to maintain their confidentiality. If the Company decides to apply for patents on important technologies or products, it might not be able to do so in a timely fashion, or at all, and, in any event, any applications filed may be challenged and may not result in issued patents. Any future patents obtained by the Company may not be sufficiently broad to prevent others from using its technologies or from developing competing products. Furthermore, others may independently develop similar or alternative technologies or design around the Company's patented or unpatented technologies. In addition, if challenged, the Company's patents may be declared invalid. Even if valid, the Company's patents may fail to provide it with any competitive advantages.

The Company also enters into licensing arrangements in respect of third parties' intellectual property rights, and collaborates with key equipment suppliers in the development of technologies that enhance the Company's product offering. The Company could also be liable to third parties in respect of any infringements of their patents or other intellectual property rights.

There is no assurance that the Company has adequately protected or will be able to adequately protect its valuable intellectual property rights, or will at all times have access to all intellectual property rights that are required to conduct its business or pursue its strategies, or that the Company will be able to adequately protect itself against any intellectual property infringement claims. There is also no assurance that our competitors will not be able to utilize such rights or develop similar technology, processes or know how independently, that the Company's trade secrets will not be revealed, that the claims allowed with respect to any current or future patents pending, or patents now held, will be broad enough to protect the Company's intellectual property rights, or that foreign intellectual property laws will adequately protect such rights. Any adverse outcome that the Company may experience whilst attempting to obtain, maintain or enforce its intellectual property rights could have a material adverse effect on the Company's business, financial condition and results of operations.

***The reduction, modification or elimination of government and economic incentives could cause the Company's revenue to decline and harm its financial results.***

Growth in the PV industry has been driven, amongst other things, by continued growth in the demand for electricity worldwide and the increasing preference for renewable energy sources. Such

growth has been supported by billions of dollars of investment and governmental incentives and commitments to increasing the proportion of energy generated by alternative means, including solar. A reduction or elimination of such incentives and commitments could impact the growth of the solar PV industry and the demand for the Company's products. A reduction in the demand for the Company's products could have a material adverse effect on the Company's financial position, results of operations and liquidity.

### **Risks Relating to the Magnesium Business**

***The Company is subject to risks relating to the closure of its magnesium facilities and the completion of its proposed transactions with Winca Tech Limited.***

The Company intends to wind down production operations at its existing magnesium extrusion facility in Aurora, Colorado and close that facility later in 2009. The Company also intends to pursue the transactions contemplated by the non-binding letter of intent with Winca Tech Limited ("Winca") announced on February 18, 2009, that would involve the transition of certain aspects of the Company's magnesium and specialty metals business and assets to a new merged business, to be known as Applied Magnesium International ("AMI"). The closure of the Aurora magnesium extrusion operations will result in severance payments and other cash closure costs, which will be incurred in 2009, and the Company expects to record charges in the first half of 2009 relating to these costs. To the extent that estimated proceeds of disposition, if any, of the production assets of the Aurora facility are less than the carrying value of such assets, a charge will be taken. The Company expects to recover a significant portion of its investment in working capital as these operations are wound down and the remaining business is transitioned to AMI. The Company expects to generate net cash proceeds from these announced plans during 2009. However, the actual closure costs may exceed the Company's expectations, and the actual proceeds from disposition of working capital items may not meet the Company's expectations. Moreover, the proposed transactions with Winca are subject to a number of conditions, including financing and execution of definitive agreements, and are expected to be completed in the second quarter 2009. A failure to complete such transactions on the expected timetables, if at all, could further increase the Company's severance payments and other cash closure costs, or further reduce the proceeds from disposition of working capital items. Any of these events could have a material adverse effect of the Company's financial position, results of operations and liquidity.

***Fluctuations in the cost and availability of magnesium metal used as a feedstock for the Company's magnesium business could have a material adverse effect on the Company's results of operations.***

The market price of magnesium metal has fluctuated significantly over the last year. The Company purchases a majority of its magnesium metal and is subject to pricing cycles dictated by overall supply and demand for this raw material. The Company also purchases magnesium in U.S. dollars, but is subject to pricing adjustments based on the exchange rate between the U.S. dollar and the Chinese Renminbi for a portion of its magnesium purchases. The Company attempts to pass on increased magnesium metal costs to its customers. However, existing customer arrangements may limit the timing or amount of any adjustments and price increases may reduce the competitiveness of the Company's products.

The Company is currently dependent on the supply of magnesium metal and billets from suppliers in China, and has outsourced certain magnesium production functions to such suppliers. Financial difficulties or operational constraints affecting any such supplier may adversely affect its ability to continue to produce and supply a sufficient quantity of magnesium metal or to perform outsourced production functions. There is no assurance that any efforts the Company may take in response to or in

anticipation of supply constraints will effectively mitigate the Company's exposure to supply chain risk for its magnesium business.

***The Company's magnesium business is dependent on a small number of key customers, the loss of any of which could have a material adverse effect on the Company's results of operations.***

The Company has had long-term commercial contracts for several years with a small number of key customers for the supply of a minimum percentage of such customers' volume requirements for magnesium extruded and fabricated products. However, most of these contracts have expired or are under renegotiation, and the Company is experiencing significant pricing pressure from such customers, as a result of increased competition for the supply of similar products at lower prices particularly from Chinese manufacturers. To the extent that the Company is not able to maintain its existing customer base, the Company's sales of magnesium extruded and fabricated products could decline significantly, which could have a material adverse effect on the Company's ability to conclude any transaction with Winca regarding AMI, as discussed above, which in turn could have a material adverse effect on the Company's financial position, results of operations and liquidity.

### **Other Risks**

***The Company is subject to credit risk exposure.***

Accounts receivable and long term receivables are subject to credit risk exposure and the carrying values of such receivables in the Company's financial statements reflect management's assessment of the associated maximum exposure to such credit risk. Substantially all of the Company's accounts receivable are due from customers in a variety of different industries and, as such, are subject to credit risks in their respective industries. The Company regularly monitors customers for changes in credit risk. However, the Company may not be able to reduce its exposure to all such credit risks.

***The Company's consolidated revenue has been concentrated with a small number of key customers, the loss of any of which could have a material adverse effect on the Company's results of operations.***

The Company's silicon and magnesium businesses have a small number of large customers that have historically accounted for a large portion of total sales. For the year ended December 31, 2008, the Company's top three customers accounted for 14%, 9% and 9% of the Company's consolidated revenues (15%, 14% and 11%, respectively, for the year ended December 31, 2007). As the Company's sales to customers of solar grade silicon eventually increase, such concentration of sales with these key customers in the silicon metal and magnesium product lines may decline over time. However, the Company will remain exposed to the risks of such customer concentration in the interim. Not all of these key customers are subject to long-term supply contracts, and some of the long-term contracts are currently under renegotiation. The loss of any such key customer in the silicon metal and magnesium product lines could have a material adverse effect on the financial position, results of operations and liquidity of the Company.

***Unexpected equipment failures or damage to the Company's facilities may lead to production curtailments or shutdowns.***

Interruptions in the Company's production capabilities will affect production levels and reduce its revenue and income for the affected period. The Company's manufacturing processes, both in its silicon business and its magnesium business, are dependent upon critical production equipment, such as its furnaces, casters and crushing equipment, as well as electrical equipment such as transformers. This equipment may, on occasion, be out of service as a result of unanticipated failures and is also subject to

scheduled maintenance shutdowns. The Company has experienced and may in the future experience material shutdowns or periods of reduced production as a result of such equipment failures or as a result of prolonged maintenance shutdowns. Moreover, any interruption in production capability may require the Company to make significant capital expenditures to remedy the underlying problem, which could have a negative effect on the Company's profitability and cash flows. In addition to equipment failures, the Company's facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions or violent weather conditions. The losses that the Company may sustain as a result of such events could exceed any recoveries it may be able to make under its business interruption insurance coverage. In addition to such losses, longer-term business disruption could result in a loss of customers, which could also have a material adverse effect on the Company's businesses, financial condition and results of operations.

***Work stoppages and other labour relations disputes could have an adverse effect on the Company's results of operations.***

The company's hourly workforces at its Bécancour and Nuevo Laredo facilities are unionized, and the collective bargaining agreement with the union covering employees in the Company's silicon business expired in 2008 and is subject to renegotiation. The Company may be subject to work stoppages and other labour disputes with these unionized employees, as well as increased demands in connection with the renegotiation of collective bargaining agreements. To date, the Company has not experienced any material work stoppages or disputes with such unionized employees. However, future disputes with the unions, including in connection with the renegotiation of collective bargaining agreements, may not be resolved without significant work stoppages, which could have an adverse effect on the Company's results of operations.

***The Company is subject to foreign exchange and currency fluctuation risks.***

The majority of the Company's products are priced in U.S. dollars and European Euros. The Company reports its results in Canadian dollars, and a substantial portion of the operating costs of the Company's silicon business are in Canadian dollars. The Company's profitability will be affected by fluctuations in the value of the currencies in which it sells its products and services against the currencies in which it pays for raw materials, components and other operating costs. The Company enters into foreign exchange contracts from time to time to hedge foreign currency risk relating to certain cash flow exposures. However, there is no assurance that such foreign exchange contracts will fully protect the Company against foreign exchange risks.

***The Company depends substantially upon the continuing efforts of certain key executives and employees, and its businesses may be adversely affected if the Company is unable to retain employees or to attract, train and retain additional qualified personnel.***

The future of the Company's solar grade silicon product line depends substantially upon the continued services of those employees at Bécancour who developed and have extensive experience in applying the Company's proprietary manufacturing technologies, including Messrs. René Boisvert and Dominic Leblanc. In addition, the Company is dependent upon the continued services of Dr. Heinz Schimmelbusch, as Chairman of the Board and Chief Executive Officer of the Company, who has over 30 years of experience in the metals industry. As well, executive management of the Company's magnesium business have experience and skills that are important for the implementation of the Company's strategic objectives and plans for this business. If any one or more of these individuals, or if a significant number of any of the Company's other executive officers, are unable or unwilling to continue being employed, the Company may not be able to replace them readily, if at all. The Company's businesses may be

significantly disrupted, and the Company may incur additional expenses to recruit and retain their replacements. In addition, if any of the individuals named above joins a competitor or forms a competing company, whether in violation of their agreements with the Company or otherwise, the Company may lose customers and may suffer from unauthorized disclosure or use of its valuable intellectual property. Recruiting, training and retaining qualified and capable personnel, particularly those with relevant technical expertise, are important to the Company's success. If the Company is unable to attract and retain such personnel, its businesses could be materially adversely affected.

***The Company may make acquisitions, or enter into partnerships or joint ventures, which it may not be able to integrate or manage successfully.***

As part of its growth strategy, the Company will consider prospective acquisitions, as well as proposals for mergers, joint ventures, business combinations and strategic alliances or partnerships, that may complement its existing businesses or investments or achieve its strategic objectives. Future acquisitions would expose the Company to potential additional risks, including risks associated with the assimilation of new technologies, businesses and personnel, unforeseen or hidden liabilities, the diversion of management attention and resources from the Company's existing businesses and investments, and the inability to generate sufficient revenues to offset the costs and expenses of such acquisitions. The Company may also not be able to identify suitable targets or be able to conclude acquisitions or enter into partnerships on its preferred terms. Moreover, if the Company is not able to successfully integrate or manage any acquired company, the acquisition may fail to achieve the desired benefits. Mergers, business combinations or joint ventures relating to any of the Company's businesses or investments may involve special risks associated with the possibility that the other party to the arrangement may: have economic or business interests or goals that are inconsistent with those of the Company; take action contrary to the Company's policies or objectives with respect to its investments; be unable or unwilling to fulfil their obligations under the applicable agreements; or experience financial or other difficulties. In addition, the Company may be unable to manage its relationship with its partners, and management's attention may be diverted away from other on-going business concerns. Any of the foregoing may have a material adverse effect on the Company's business, financial condition or its results of operations.

***The Company is exposed to a number of risks related to its international operations and supply chains, which could have an adverse effect on the Company's results of operations.***

The Company has manufacturing and sales operations in several foreign countries (outside of Canada and the United States), including Mexico, and purchases significant volumes of raw materials from foreign countries, including China and Russia. International operations and supply chains are subject to certain risks inherent in doing business abroad, including: political and economic instability; trade, customs and tax risks; currency exchange rates and currency controls; insufficient infrastructure; restrictions on exports, imports and foreign investment; increases in working capital requirements related to long supply chains; and difficulty in protecting intellectual property rights. The Company may continue to expand its foreign operations and supply chains and, as a result, exposure to these risks may increase in the future. The likelihood of such occurrences and their potential effect on the Company vary from country to country and are unpredictable. However, any such occurrence could have an adverse effect on the Company's results of operations.

***A violation of environmental, health or safety laws or releases of hazardous substances could expose the Company to liability.***

The Company is, and historically has been, involved in certain activities that may be deemed to be hazardous to the environment, and the Company must also comply with stringent regulatory requirements in certain jurisdictions. The Company maintains environmental and industrial safety and health compliance programs at its facilities, and the Company believes that its current manufacturing operations are in material compliance with all applicable safety, health and environmental laws and that the Company maintains all material permits required under such laws to operate its business. There can be no assurance that current environmental requirements or future changes to them, including possible additional regulations or increases in levels of fines or penalties, will not result in liabilities and obligations that may be material to the Company's business, financial condition and results of operations.

The Company's manufacturing businesses are subject to extensive and changing laws and regulations governing, amongst other things, emissions to air, discharges and releases to land and water, the generation, handling, storage, transportation, treatment and disposal of wastes and other materials, and the remediation of contamination caused by discharges of waste and other material, as well as the risk that employees and others are exposed to hazardous or toxic substances. Such laws and regulations not only expose the Company to liability for its own actions, but also may expose it to liability for the conduct of others or for its actions which were in compliance with all applicable laws at the time such actions were undertaken or performed but which subsequently have become subject to regulation. In addition, the Company could be held liable for the release or discharge of materials which may be hazardous to health or the environment, including the cost of investigating and cleaning up such contamination, regardless of whether such release or discharge was legal and of whether the Company continues to own or operate the facility at which such release or discharge occurred, as well as such releases or discharges that occur at sites to which the Company or its predecessors have sent waste or that migrate onto the property of third parties. The Company could be held liable for such costs even if they arise from the actions of third parties. The Company's operations generally, and those involving hazardous materials in particular, also raise potential risks of liability under common law.

A violation of environmental or health and safety laws relating to the Company's facilities or a failure to comply with the instructions of the relevant environmental or health and safety authorities could lead to, amongst other things, a temporary shutdown of the Company's facilities or the imposition of fines, penalties or costly compliance or remediation procedures. The Company may also be exposed to potential litigation based on perceived violations of environmental or health and safety laws. If environmental or health and safety authorities impose substantial fines or penalties or require the Company to shut down any of its facilities or to implement costly compliance measures, whether pursuant to existing or new environmental, health and safety laws and regulations, such measures could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is also obligated to undertake remediation activities related to former facilities and has accrued \$5.9 million as at December 31, 2008, for future costs relating to site restoration and closure of certain of its former facilities and operations. The actual cost for such site restoration in the future could be higher than the amount estimated. The Company's estimate for this future liability is also subject to change based on amendments to applicable laws, the nature of ongoing operations, the timing of future closures and technological innovations. Any changes in this estimate could have a material adverse effect on the Company's financial position, results of operations and liquidity.

***Unexpected transportation disruptions may lead to production curtailments or shutdowns.***

The Company depends upon seaborne freight, rail and truck transport to deliver raw materials to its facilities and its products to market. Disruption of these transportation services because of weather-related problems, equipment failures, strikes, lock-outs or other events such as available port capacity could temporarily impair the Company's ability to supply its raw materials to its facilities and its products to its customers and thus could have a material adverse effect on the Company's business, financial condition and results of operations.

***AMG may influence the Company's strategic direction and may have conflicts of interest, and certain executives of the Company could acquire or hold interests that may compete with the Company.***

AMG Advanced Metallurgical Group N.V., through its ownership of a majority of the common shares of the Company, has the ability to influence the Company's strategic direction and policies, including any merger, consolidation or sale of all or substantially all of the Company's assets, and the election and composition of the Board of Directors and executive management. As at December 31, 2008, AMG directly held 52,559,733, or 50.4%, of the issued and outstanding common shares of the Company. Subsequent to the Company's equity offering that was completed on February 3, 2009, AMG directly held 56,497,933 common shares of the Company, representing 50.7% of the total issued and outstanding shares. AMG also has a right, under a call option agreement with the holder of the Company's outstanding convertible promissory notes, to acquire up to an additional 18,827,261 common shares of the Company issuable upon the exercise of the conversion option under such notes, representing an additional 18.0% of the Company's issued and outstanding common shares, as at December 31, 2008 (see "Item 11 – Interest of Management in Material Transactions" below). Two of the seven members of the Board of Directors of the Company are senior executives of AMG, and another one of the Company's directors is the deputy chairman of the supervisory board of AMG.

AMG, as a metals company, operates businesses that are complimentary to the Company's operations, including its solar grade silicon product line. There may be significant synergies and new business opportunities that arise from the Company's relationship with AMG as the Company's controlling shareholder; however, this relationship may also involve conflicts of interest. AMG may directly pursue acquisitions or other strategic opportunities that could be beneficial or complementary to the Company's businesses; however, the Company may not realize the benefits of any such acquisitions or opportunities pursued by AMG, if at all.

Dr. Heinz Schimmelbusch and Mr. Arthur Spector are also members of the management board of AMG, and members of the executive committee of the general partner of Safeguard International Fund, L.P., which is a shareholder of AMG, and a subsidiary of which is the holder of convertible promissory notes of the Company. The Company does not have agreements with Dr. Schimmelbusch or Mr. Spector that restrict the activities that they may undertake or business interests in which they may invest or participate. The Company's Code of Conduct and Ethics, which applies to all directors, officers and employees of the Company, requires such individuals to notify the Company in respect of conflicts of interest, and applicable laws also require that these individuals declare their interest to the Board of Directors in respect of transactions with the Company in which they may have a conflict of interest and in some circumstances prohibit them from voting on such matters. However, subject to the foregoing, Dr. Schimmelbusch and Mr. Spector may from time to time acquire and hold interests in businesses that engage in transactions or compete directly or indirectly with the Company.

***The Company is subject to interest rate risks.***

The Company is exposed to interest rate risk to the extent that cash and short term investments, bank indebtedness, convertible notes receivable and amounts due to an affiliated company are at floating rates of interest. The Company's maximum exposure to interest rate risk is based on the effective interest rate and the current carrying value of these assets and liabilities. The Company monitors the interest rate markets to ensure that appropriate steps can be taken if interest rate volatility compromises the Company's cash flows. However, the Company may not be able to reduce its exposure to all such interest rate risks.

***Intellectual property infringement claims could require substantial time and money to resolve, and unfavourable outcomes in such proceedings could limit the Company's intellectual property rights.***

The Company may need to resort to litigation to enforce or defend its intellectual property rights, including any patents issued to it. Failure to apply for patents could also lead to infringement claims. If a competitor or collaborator files a patent application, which management believe infringes the Company's intellectual property, the Company may become involved in an expensive and time-consuming opposition proceeding in order to protect its rights, before the European Patent Office, the United States Patent and Trademark Office or patent authorities in other jurisdictions. The Company cannot guarantee that there will be no claims from third parties alleging that its products or processes infringe the intellectual property rights of such parties. Third parties may assert that the Company is employing their proprietary technologies without authorization and they may resort to litigation to attempt to enforce their rights. Third parties may have or obtain patents in the future and claim that the use of the Company's technology or any of its products or systems infringe their patents. The Company may not be able to develop or commercialise certain products because of patent protection others have. The Company's efforts to obtain, protect and defend its patent and other intellectual property rights, whether successful or not, can be expensive and may require the Company to incur substantial costs, including the diversion of management and technical personnel. An unfavourable ruling in patent or intellectual property litigation could subject the Company to significant liabilities to third parties; require it to cease developing, manufacturing or selling the affected products or using the affected technologies or to license the disputed rights from third parties; or result in awards of substantial damages against the Company. There can be no assurance that the Company would prevail in any intellectual property infringement action or will be able to obtain a licence to any third-party intellectual property on commercially reasonable terms, successfully develop non-infringing alternatives on a timely basis, or license non-infringing alternatives, if any exist, on commercially reasonable terms. Any significant intellectual property impediment on its ability to develop, manufacture and sell the Company's products could have a material adverse affect on the Company's business, financial condition and results of operations.

***European Union ("EU") legislation establishing a new regulatory regime for chemical substances may adversely impact the business.***

EU Regulation 2006/1907 on the Registration, Evaluation, Authorisation, and Restriction of Chemicals ("REACH") entered into force on June 1, 2007 and requires industrial businesses, rather than public authorities, to assume general responsibility for ensuring and demonstrating the safety of chemical substances in the EU. The Company pre-registered its chemical substances with the European Chemicals Agency in November 2008. The Company will be required to submit a detailed registration in respect of each substance it manufactures in the EU or imports into the EU in a quantity of one ton or more per year. Aside from the costs and administrative burden associated with compliance, a general concern raised across relevant EU industries is the potential for substances to be withdrawn from the EU market as a consequence of REACH, either due to regulatory action or commercial considerations, and the potential

impact of this on supply chains. The Company has not yet determined the impact of REACH on its operations. The increased compliance costs and potential reduction in demand for the Company's products resulting from the implementation of REACH could have a material adverse effect on the Company's business, financial condition and results of operations.

***Tax liabilities of the Company may substantially increase if the tax laws in countries in which it operates change or become subject to adverse interpretations or inconsistent enforcement.***

Taxes payable by companies in many of the countries in which the Company operates are substantial and include corporation tax, value added tax, excise duties, payroll-related taxes, property taxes and other taxes. Tax laws and regulations in some of the countries in which the Company operates may be subject to change, varying interpretation and inconsistent enforcement. As a result, the Company may face a significant increase in taxes payable if tax rates and tax laws and regulations in the jurisdictions and treaties between jurisdictions in which it operates increase and/or are modified by regulatory authorities in an adverse manner. It is possible that taxing authorities in the countries in which the Company operates will introduce additional revenue-raising measures. The introduction of any such provisions may affect the overall tax efficiency of the Company and may result in significant additional taxes becoming payable. There can be no assurance that additional tax exposure will not arise or that any such additional tax exposure will not significantly reduce the Company's cash flow and profitability.

***Regulatory initiatives to address climate change could have an adverse effect on the Company's results of operations.***

As a producer of silicon metal, the Company emits carbon dioxide, which is a greenhouse gas ("GHG"), as a natural by-product of the pyrometallurgical process used to make silicon at its Bécancour facilities. Specifically, carbon-based process materials, such as coal, coke, charcoal and wood chips are combined with quartz to create both silicon and carbon dioxide. Regulatory initiatives are under way in Québec and other Canadian jurisdictions designed to limit or create economic disincentives for GHG emissions, including potential carbon taxes and "cap and trade" regimes. The scope and potential impact of such initiatives on the Company's silicon business is not yet known, and the extent to which such initiatives impose limits, taxes or other adverse economic consequences on any of the Company's operations could have an adverse effect on the Company's business, financial condition or results of operations.

## ITEM 6. DIRECTORS AND OFFICERS

### Directors

The Company's Board of Directors currently consists of the following members:

<u>Name and Residence</u>	<u>Director Since</u>	<u>Principal Occupation</u>
Heinz C. Schimmelbusch <sup>(1)</sup> Pennsylvania, USA	2003	Chairman of the Management Board of AMG Advanced Metallurgical Group N.V., a metals company
Arthur R. Spector Pennsylvania, USA	2003	Deputy Chair of the Management Board of AMG Advanced Metallurgical Group N.V.
John C. Fox <sup>(2)(3)(4)</sup> Virginia, USA	2008	Senior Managing Director of Perseus LLC
Jay C. Kellerman Ontario, Canada	2004	Partner at Stikeman Elliott LLP, a law firm
Jack L. Messman <sup>(4)</sup> Massachusetts, USA	2003	Corporate Director
Michael D. Winfield <sup>(3)(4)</sup> Illinois, USA	2004	Corporate Director
Mickey M. Yaksich <sup>(2)</sup> Ontario, Canada	1998	Partner and Chief Operating Officer of McMillan LLP, a law firm

#### Notes:

- (1) Chairman of the Board
- (2) Member of the Audit Committee
- (3) Member of the Human Resources, Compensation and Pension Committee
- (4) Member of the Corporate Governance and Nominating Committee

All of the Company's current directors were elected to their present terms of office by the Company's shareholders at the annual and special meeting of shareholders held on May 29, 2008. The term of office for each director expires at the conclusion of the next annual meeting of shareholders of the Company, which is scheduled for May 15, 2009.

All of the directors have held the principal occupations identified above (or another position with the same employer) for not less than five years, except as follows:

- Prior to the initial public offering of AMG in July 2007, the principal occupation of each of Dr. Schimmelbusch and Mr. Spector was acting as Managing Director of Safeguard International Fund, L.P., a private equity fund.

- Mr. Messman was Chairman, President and Chief Executive Officer of Novell Inc., an infrastructure software company, from 2001 until his retirement in June 2006.
- Mr. Winfield was President and Chief Executive Officer of UOP LLC, a technology and products supplier to the oil and gas industries, until his retirement in 2001. He continued to serve as a member of its Board of Managers until 2004. He is a director of Landauer Corp., an analytical services company, where he served as Chairman. Mr. Winfield was also a director of Metallurg Inc., a metals company and a subsidiary of AMG, from 2001 until 2007. He also served as a director of Chicago Bridge and Iron Company, an engineering, procurement and construction company, from 2001 to 2004.
- Mr. Fox is a Senior Managing Director of Perseus LLC, a merchant bank and private equity fund management company headquartered in Washington D.C., which he joined in 2000.

### Officers

The executive officers of the Company currently consist of the following individuals:

<u>Name</u>	<u>and Residence</u>	<u>Office</u>
Heinz C. Schimmelbusch	Pennsylvania, USA	Chairman of the Board (since April 2003) and Chief Executive Officer (since August 2007)
Robert J. Dietrich	Ontario, Canada	Executive Vice President – Finance and Chief Financial Officer (since December 2006)
René Boivert	Québec, Canada	President - Silicon (since April 2008) and Chief Executive Officer of Bécancour Silicon Inc. (since August 2007)
John Fenger	Pennsylvania, USA	President – Lights Metals (since April 2008)
Peter D. Rayner	Ontario, Canada	Corporate Controller (since September 2008)
Peter A.M. Kalins	Ontario, Canada	General Counsel and Corporate Secretary (since September 2007)

To the extent that the foregoing executive officers have not held the offices identified above for the last five years, they have held the following offices or positions with the Company and/or have had the following principal occupations, during the last five years:

- With respect to Dr. Schimmelbusch, who is also a director of the Company, see above under “Directors”. In addition, Dr. Schimmelbusch was Chief Executive Officer of the Company from April 2003 to September 2005.
- Mr. Dietrich joined the Company in April 2006, as Vice President – Finance and Chief Financial Officer. Prior to that, Mr. Dietrich was Chief Financial Officer of MKS Inc., an enterprise software company, from July 2001 to November 2005.

- Mr. Boisvert joined Bécancour Silicon Inc. (“BSI”), the wholly-owned subsidiary of the Company that conducts the Company’s silicon business, in 1986 as Senior Electrical Engineer. Since then, Mr. Boisvert has held various positions and offices within BSI. Prior to August 2007, Mr. Boisvert was President of BSI since December 2004, and prior to that was Vice President – Operations & Technology of BSI since 2001.
- Mr. Fenger was Vice President Aluminum of the Company from May 2004 till his appointment as President – Light Metals of the Company in April 2008. Mr. Fenger’s compensation has been paid by Allied Resource Corporation (“Allied”), in U.S. dollars, and the Company has reimbursed Allied for 80% of its compensation expenses in respect of Mr. Fenger. Mr. Fenger splits his working time as to approximately 80% for the Company and as to approximately 20% for Allied.
- Mr. Rayner joined the Company in September 2008. Prior to joining Timminco from 2001 to 2008, Mr. Rayner was Corporate Controller for KIK Custom Products, a manufacturer of consumer personal care and cleaning products.
- Mr. Kalins joined the Company in September 2007. Prior to that, Mr. Kalins was Legal Counsel of Magna International Inc., an auto parts manufacturing company, from May 2003 to August 2007, and was Counsel – Securities of Nortel Networks Limited, a telecommunications equipment company, from April 2000 to April 2003.

### **Beneficial Ownership of Securities**

As at December 31, 2008, the directors and executive officers of the Company as a group (consisting of 12 individuals) beneficially owned, or controlled or directed, directly or indirectly, 913,500 common shares of the Company, representing 0.88% of the issued and outstanding common shares of the Company. The directors and executive officers of the Company as a group held options to purchase an aggregate of 8,780,000 common shares of the Company.

In addition, Dr. Schimmelbusch and Mr. Spector are members of the Management Board of AMG, which directly held 52,559,733 common shares of the Company, representing 50.4% of the total issued and outstanding shares of the Company as at December 31, 2008. Subsequent to the Company’s equity offering that was completed on February 3, 2009, AMG directly held 56,497,933 common shares of the Company, representing 50.7% of the total issued and outstanding shares. AMG also has a right, under a call option agreement with the holder of the Company’s outstanding convertible promissory notes, to acquire up to an additional 18,827,261 common shares of the Company issuable upon the exercise of the conversion option under such notes, representing an additional 18.0% of the Company’s issued and outstanding common shares, as at December 31, 2008 (see “Item 11 – Interest of Management in Material Transactions” below).

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

No director or executive officer of the Company is as at the date hereof, or was within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company (including the Company), that (i) was subject to an “order” (meaning a cease trade order, an order similar to a cease trade order, or an order that denied the relevant company access to any exemption under securities legislation, that in any case was in effect for a period of more than 30 consecutive days) that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or (ii) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an

event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer, except as follows:

- A definitive management cease trade order, which superseded a temporary management cease trade order dated April 1, 2005 against all of the directors and officers of the Company in connection with the Company's failure to file its audited financial statements for the year ended December 31, 2004, was issued by the Ontario Securities Commission on April 14, 2005. These management cease trade orders expired on May 2, 2005.

No director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, (i) is as at the date hereof, or has been within the 10 years before the date hereof, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or (ii) has, within the ten years prior to the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder, except as follows:

- John Fenger, President – Light Metals, was the chairman of boards of directors of two associated industrial companies when they entered into insolvency proceedings in 2004. Promeks AS, a Norwegian company, became insolvent as a result of its inability to secure financing for the project for which it was founded and Allied Efa hf, an Icelandic company, became insolvent as a result of operating losses. Mr. Fenger was also Chairman of the Board of Fundo Wheels AS when it commenced bankruptcy proceedings in January 2009.

### **Conflicts of Interest**

None of the Company's directors or officers, including directors and officers of the Company's subsidiaries, has an existing or potential material conflict of interest with the Company or its subsidiaries, except as described below under "Item 11 – Interest of Management and Others in Material Transactions" and as described above under "Item 5 – Risk Factors".

### **ITEM 7. DIVIDEND POLICY**

During the five-year period ended December 31, 2008, the Company did not pay any dividends on any of its shares. The Company may not pay cash dividends during the term of its credit agreement with Bank of America, N.A., which was executed in April 2005 (as amended) and expires in March 2010.

The future payment of dividends will be subject to the discretion of the Board of Directors having regard to consideration of the Company's earnings, financial condition and such other factors as deemed relevant by the Board of Directors of the Company.

### **ITEM 8. DESCRIPTION OF CAPITAL STRUCTURE**

The Company's share capital consists of an unlimited number of Class A and Class B preference shares, issuable in series and none of which are currently outstanding, and an unlimited number of common shares, of which 104,196,088 were issued and outstanding as at December 31, 2008 (an additional

7,042,000 common shares were issued pursuant to the Company's equity offering completed on February 3, 2009). The Company's common shares are the only class of shares that carry a general right to vote. In the event of the Company's liquidation, dissolution or winding up, the Class A preference shares would be entitled to priority over the Class B preference shares and the common shares of the Company in the payment of dividends and the return of capital on the distribution of assets. Similarly, the Class B preference shares are entitled to priority in payment over the common shares of the Company. Additional details of the Company's share capital, including common shares issuable pursuant to options and convertible loans, are set out in Note 12 to the Company's audited consolidated financial statements for the year ended December 31, 2008, which is incorporated herein by reference. The Company's annual financial statements are available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **ITEM 9. MARKET FOR SECURITIES**

The common shares of the Company are listed and posted for trading on the Toronto Stock Exchange under the trading symbol "TIM".

The following table indicates the monthly trading volumes and price ranges for the common shares of the Company during the 2008 calendar year:

<u>Month</u>	<u>Trading Volume</u>	<u>Closing Price Range</u>
January	67,339,802	\$10.20–20.83
February	58,583,015	\$13.89 – 22.85
March	48,231,911	\$15.94 –25.70
April	79,002,328	\$18.50 – 28.39
May	65,177,368	\$19.20 – 30.50
June	24,708,653	\$27.37 – 34.50
July	15,886,083	\$22.00 – 25.30
August	30,021,530	\$12.25 – 23.00
September	19,549,192	\$11.55 – 14.63
October	13,887,643	\$6.12 – 15.40
November	22,095,235	\$2.75 – 10.00
December	11,060,335	\$3.05 – 4.96

#### **ITEM 10. ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER**

To the knowledge of the Company, the following table shows the number of common shares of the Company held in escrow or subject to a contractual restriction on transfer and the percentage that that number represents of our outstanding common shares as at December 31, 2008:

<u>Designation of Class</u>	<u>Number of Securities held in escrow or that are subject to a contractual restriction on transfer</u>	<u>Percentage of class</u>
Common shares	0	0.0%

## **ITEM 11. INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

In March 2007, Safeguard International Fund, L.P. (“Safeguard”) reorganized its indirect holdings in the Company, by contributing 40,909,093 common shares of the Company to AMG and increasing its ownership interest in AMG to 89.7%. In June 2007, Safeguard’s ownership interest in AMG increased to 91.5%. In July 2007, Safeguard sold a portion of its shares of AMG and retained 40.2% of the outstanding share capital of AMG. In October 2007, Safeguard sold a further portion of its shares of AMG, such that Safeguard’s ownership interest in AMG was reduced to 26.6%. In addition, AMG has entered into a call option agreement (the “AMG Call Option Agreement”) with ALD International LLC, a controlled subsidiary of Safeguard (“ALD International”), pursuant to which AMG may, at its option, require ALD International to instruct the Company to issue to AMG any common shares issuable upon the conversion of certain convertible promissory notes issued by Bécancour Silicon Inc. (“BSI”), as described below. Neither the Company nor BSI was party to any of the foregoing transactions among AMG, Safeguard or ALD International. However, the Company and/or BSI did enter into the transactions described below with one or more of these parties.

In March 2006, BSI issued a convertible promissory note to ALD International in exchange for a US\$2.0 million. The note could be settled, at the noteholder’s option, in cash or shares at \$0.40 per share, or a combination of cash and shares. In April 2007, the entire principal amount of such convertible promissory note was converted and 5,601,000 common shares of the Company were issued, based on a conversion rate of \$0.40 per share, to AMG.

In August 2006, BSI issued a convertible promissory note in exchange for US\$3.0 million, which note is held by ALD International (the “August 2006 Note”). The note is repayable on demand, and bears interest at the U.S. prime rate plus 1%. The August 2006 Note and related security are subordinate to the indebtedness of the Company, and the security provided by the Company, to Bank of America, N.A. under the existing credit agreement. The August 2006 Note may be settled, at the noteholder’s option, in cash or common shares of the Company at \$0.40 per share, or a combination of cash and common shares. In July 2007, the noteholder exercised its right to convert US\$350,000 principal amount of the August 2006 Note and 913,500 common shares of the Company were issued. Pursuant to AMG’s rights under the AMG Call Option Agreement, the Company was directed to issue all such common shares directly to AMG. Immediately following such transaction, AMG directly held a total of 46,510,093 common shares of the Company, representing 50.6% of the outstanding common shares. The principal amount of the August 2006 Note currently outstanding is US\$2.65 million. As at December 31, 2008, the maximum number of common shares of the Company that may be acquired by AMG under the AMG Call Option Agreement upon conversion by ALD International of the remaining portion of the August 2006 Note is 8,112,975 common shares (based on the noon exchange rate on December 31, 2008 of US\$1 = Cdn\$1.2246 as reported by the Bank of Canada).

In March 2007, BSI issued a convertible promissory note to ALD International in exchange for a loan of \$4.5 million (the “March 2007 Note”). The note is repayable on demand, and bears interest at the U.S. prime rate plus 1%. The March 2007 Note and related security are subordinate to the indebtedness of the Company, and the security provided by the Company, to Bank of America, N.A. under the existing credit agreement. The March 2007 Note may be settled, at the noteholder’s option, in cash or common shares of the Company at \$0.42 per share, or a combination of cash and common shares. The entire principal amount of the March 2007 Note is currently still outstanding. The maximum number of common shares that may be acquired by AMG under the AMG Call Option Agreement upon conversion by ALD International of the March 2007 Note is 10,714,286 common shares.

In the fourth quarter 2008, the Company purchased \$1.7 million in finished goods inventory (aluminum wheels) from Fundo under an arrangement whereby Fundo agreed to resell such inventory on behalf of the Company to Fundo's existing customers and remit the proceeds from such sales to the Company. In connection with this arrangement, AMG unconditionally agreed to pay the Company an amount equal to any shortfall in the actual proceeds from the sales of such inventory. Fundo defaulted on its obligations to the Company and, pursuant to the Company's demand under the guarantee, AMG paid the Company \$1.7 million plus interest at 7%.

In fiscal 2008, BSI purchased a furnace and equipment spare parts from ALD Vacuum Technologies GmbH, a wholly-owned subsidiary of AMG, for \$1.6 million. This equipment, which facilitates the production of ingots from solar grade silicon, was purchased on arm's length terms and is being used by BSI for research and development and quality control purposes.

On February 3, 2009, the Company completed an equity offering by way of private placement of 7,042,000 common shares at a price of \$3.55 per share, pursuant to an agency agreement ("Agency Agreement") dated February 3, 2009 between the Company, AMG, Clarus Securities Inc. and TD Securities Inc. AMG acquired 3,938,200 common shares in this offering at a price of \$3.55, which was the same price for the common shares issued to the other investors in the equity offering. Immediately following the equity offering, AMG owned 56,497,933 common shares of the Company, representing 50.7% of the outstanding share capital.

Each of Dr. Schimmelbusch and Mr. Spector are members of the Management Board of AMG, and are also members of the executive committee of the general partner of Safeguard, which controls ALD International.

#### **ITEM 12. TRANSFER AGENT AND REGISTRAR**

The Company's registrar and transfer agent is Computershare Investor Services Inc. ("Computershare"). The Company's share register is maintained by Computershare at its principal offices in Toronto, Ontario and in Montréal, Québec.

#### **ITEM 13. MATERIAL CONTRACTS**

Reference is made to the descriptions under "Item 11 – Interests of Management and Others in Material Transactions" above in respect of the Agency Agreement dated February 3, 2009.

#### **ITEM 14. EXPERTS**

Ernst & Young LLP was appointed as the Company's external auditor on November 16, 2007, following the resignation of KPMG LLP, which had been the Company's external auditor prior to such date.

The financial statements of the Company for the year ended December 31, 2008 have been audited by Ernst & Young LLP which, to the Company's best knowledge and belief, is independent in accordance with the auditor's rules of professional conduct in the Province of Ontario.

## **ITEM 15. AUDIT COMMITTEE, CHARTER AND AUDIT FEES**

### **Audit Committee Charter**

The Audit Committee's charter was approved by the Board of Directors on March 17, 2008. A copy of such charter is attached as Schedule A to this Annual Information Form.

### **Composition of the Audit Committee**

The Audit Committee is currently comprised of three members: Mickey M. Yaksich (Chair), John C. Fox and Michael D. Winfield. Each current member of the Audit Committee is independent and financially literate, within the meaning of Multilateral Instrument 52-110 – *Audit Committees*, and was appointed to serve as members of the Audit Committee by the Board of Directors on May 29, 2008.

Prior to the Company's annual shareholders meeting on May 29, 2008, the Audit Committee was comprised of three members: Mickey M. Yaksich (Chair), Jay C. Kellerman and Michael D. Winfield.

### **Relevant Education and Experience**

Mr. Yaksich is a partner and the Chief Operating Officer of McMillan LLP, a Toronto, Ontario based law firm. Mr. Yaksich practices corporate and income tax law with an emphasis on international investments, financings, transaction structuring and transfer pricing. Mr. Yaksich, who has been a lawyer for over 30 years, received his Bachelor of Laws degree from the University of Toronto.

Mr. Fox is a Senior Managing Director of Perseus LLC, a merchant bank and private equity fund management company headquartered in Washington, D.C. Prior to joining Perseus in 2000, Mr. Fox was Chief Operating Officer of Ontario Power Generation Inc. (formerly Ontario Hydro), where he was responsible for generation, transmission and other matters for one of the largest electric utilities in North America. Mr. Fox is a board member for the following Perseus portfolio companies: NxtPhase T&D Corporation, BPL Global Corporation, Puralube, Inc. and Soft Switching Technologies Corporation. Mr. Fox holds a B.S. in Civil Engineering from the University of Toronto and an M.B.A. from McMaster University in Hamilton, Ontario.

Mr. Winfield was President and Chief Executive Officer of UOP, LLC until his retirement in 2001. He continued to serve on its Board of Managers until 2004. He is a director of Landauer Corp., where he served as Chairman, and was a member of the Governance and Compensation Committee, and currently serves on the Audit and Technology Committee. He also served as a director of Chicago Bridge and Iron Company from 2001 to 2004, and was a member of its Audit Committee. Mr. Winfield earned a Bachelor of Science in Chemical Engineering from Ohio State University, where he is a distinguished alumnus and a member of the College of Engineering Advisory Board. He also has a Master of Business Administration degree from the Executive Program at the University of Chicago.

### **Pre-Approval Policies and Procedures**

The Audit Committee pre-approves all audit services and permitted non-audit services to be provided by the Company's external auditors from time to time, as well as the fees for such services. However, the Audit Committee need not approve in advance any non-audit services where: (i) the aggregate amount of all such non-audit services provided constitutes not more than 5% of the total amount of revenues paid to the external auditor during the fiscal year in which the non-audit services are provided; (ii) at the time of the engagement, the Company did not recognize such services to be non-audit services;

and (iii) such services are promptly brought to the attention of the Audit Committee and approved, prior to the completion of the audit, by the Audit Committee or by one or more members of the Audit Committee to whom authority to grant such approvals has been delegated. The Audit Committee may delegate the pre-approval function to its Chair, so that any issues arising between meetings of the Audit Committee may be handled appropriately and on a timely basis. The Chair must fully report all action taken under this delegated authority at the next scheduled Audit Committee meeting.

### **External Auditor Service Fees**

KPMG LLP, who was the Company's external auditor until November 16, 2007, billed the following aggregate amounts of fees for the following services provided in the year ended December 31, 2007:

<u>Type of Fees</u>	<u>2007</u>
Audit Fees <sup>(1)</sup>	\$368,844
Audit-Related Fees <sup>(2)</sup>	\$179,244
Tax Fees <sup>(3)</sup>	\$84,315
All Other Fees	Nil

In connection with its audit of the Company's annual financial statements for the year ended December 31, 2007 and December 31, 2008, Ernst & Young LLP confirmed that it is independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario. Ernst & Young billed the following aggregate amounts of fees for the following services provided in the year ended December 31, 2008:

<u>Type of Fees</u>	<u>2008</u>
Audit Fees <sup>(1)</sup>	\$992,000
Audit-Related Fees <sup>(2)</sup>	\$26,000
Tax Fees <sup>(3)</sup>	\$Nil
All Other Fees	\$400,000

### Notes:

(1) This category consists of fees for services performed in order to comply with generally accepted auditing standards (GAAS). In some cases, these may include an allocation of fees for tax services or accounting consultations, to the extent such services were necessary to comply with GAAS. With respect to KPMG LLP, the Audit Fees above relate to fiscal 2006 audit services billed in 2007. With respect to Ernst & Young LLP, the Audit Fees above relate to fiscal 2007 and 2008 audit services billed in 2008.

- (2) This category consists of fees paid for services performed in respect of assurance and related services, (e.g. due diligence and accounting consultations) in connection with strategic transactions, attest services not required by statute or regulation, and consultations regarding financial accounting and reporting standards.
- (3) This category consists of fees paid for services performed by the external auditor's tax professionals, except those services required to comply with GAAS. Such services included tax compliance, tax planning and tax advice.
- (4) This category consists of fees paid for all other services performed by our external auditor that are not covered by any of the other categories.

**ITEM 16. ADDITIONAL INFORMATION**

Additional information about the Company, including the documents referenced below, may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration, options to purchase securities and interests of insiders in material transactions, is contained in the Company's management information circular for the most recent annual meeting of shareholders that involved the election of directors. Additional financial information is provided in the Company's audited consolidated financial statements and management's discussion and analysis for the year ended December 31, 2008, which are included in the Company's annual report to shareholders.

Copies of this Annual Information Form, together with any document incorporated by reference in this Annual Information Form and the management information circular and annual report referenced above, as well as any of the Company's interim financial statements for the periods after December 31, 2008, are available, upon request, from the General Counsel and Corporate Secretary at Sun Life Financial Tower, 150 King Street West, Suite 2401, Toronto, Ontario, Canada M5H 1J9. When the Company's securities are in the course of distribution pursuant to a short form prospectus or a preliminary short form prospectus has been filed in respect of a distribution of the Company's securities, the Company will provide one copy of each of the foregoing documents (as well as any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus). At any other time, the Company will provide one copy of any of the foregoing documents and may require payment of a reasonable charge for such copy if the request is made by a person who is not one of the Company's security holders.

## Schedule A

### TIMMINCO LIMITED

#### AUDIT COMMITTEE CHARTER

##### **I. PURPOSE**

The Board of Directors of Timminco Limited (the “Corporation”) has established the Audit Committee (the “Committee”) to augment and improve financial disclosure and ensure legal compliance by the Corporation with respect to financial reporting and related matters. The Committee shall assist the Board of Directors in fulfilling its corporate governance and oversight responsibilities with respect to accounting and financial reporting processes, internal financial controls, financial risk management systems and internal and external audit functions. In general, the Committee will:

- (i) review quarterly and annual financial statements, prior to their review and approval by the Board of Directors, and satisfy itself with the fairness and consistency of the auditing practices used;
- (ii) review and approve the annual financial statements of the pension funds of the Corporation and its material subsidiaries;
- (iii) recommend to the Board of Directors the selection of the Corporation’s external auditors (which must be in good standing with the Canadian Public Accountability Board) to be nominated for appointment by the shareholders, as well as any external auditor required to perform other audit, review or attest services, and the compensation of all such auditors;
- (iv) ensure the integrity of the audit process, including monitoring audits to ensure sufficient managerial independence and reporting as well as the external auditor’s qualifications and independence;
- (v) pre-approve all audit services and permitted non-audit services to be provided to the Corporation by its external auditors;
- (vi) serve as liaison between the external auditors and the Corporation;
- (vii) obtain assurances from management with respect to relationships with regulators, and the accuracy and timeliness of filings with regulatory authorities; and
- (viii) perform any other duty as may be assigned by the Board from time to time or as may be required by the *Canada Business Corporations Act*, the *Securities Act* (Ontario) and all regulations, policies, rules and instruments under applicable securities laws, and any other applicable legislation.

## **II. RESPONSIBILITIES**

The Committee has the following specific responsibilities:

### **1. Financial Reporting - General**

The Committee shall periodically review and discuss with management and the external auditor, as appropriate, the following:

- (a) the Corporation's financial disclosure control policies and procedures as well as any impact these may have on the internal control over financial reporting;
- (b) the Corporation's internal financial control system at least annually to ensure that it is current and effective;
- (c) significant financial reporting issues;
- (d) any correspondence with regulators or published reports which raise material issues that may have a significant effect on the Corporation's financial statements;
- (e) any reports prepared by the external auditors and provided to the Committee relating to significant financial reporting issues including the Corporation's selection, application and disclosure of accounting principles and the effects, if any, on the Corporation's financial statements;
- (f) any recommendation made by the external auditors in the course of reviewing the Corporation's financial reporting or accounting processes;
- (g) changes in accounting policies, audit plan and control systems;
- (h) practices and procedures adopted by management to ensure continuing compliance with financial disclosure, audit and filing requirements; and
- (i) any other matter pertaining to auditing standards, laws or regulations the Committee determines necessary for discussion or review.

### **2. Preparation and Release of Financial Information**

With respect to preparing and releasing financial information, the specific responsibilities of the Committee include:

- (a) reviewing the selection of accounting policies and audit plan for effectiveness;
- (b) reviewing and understanding the results of the external, independent audit;
- (c) satisfying itself as to the fairness, consistency and timeliness of the annual and periodic financial statements;

- (d) reviewing, from time to time, with the Chief Executive Officer and Chief Financial Officer of the Corporation their certificates under Multilateral Instrument 52-109 or any other applicable regulatory requirement;
- (e) presenting the approved financial statements to the Board of Directors for final approval;
- (f) reviewing and recommending to the Board of Directors for approval prior to public disclosure: the Corporation's annual and quarterly financial statements (whether stand alone or included in a prospectus or other offering document) and any related management's discussion and analysis (MD&A); and all earnings press releases
- (g) reviewing portions of the Corporation's annual information form (AIF) and management information circular for any annual or special meeting of shareholders containing information within the Committee's mandate;
- (h) reviewing all other press releases and public disclosures that contain material financial information or future earnings guidance regarding the Corporation, including the type and presentation of information to be included in such press releases or other disclosures (in particular, the use of "pro forma" or "adjusted" non-GAAP information); and
- (i) reviewing all material forward-looking financial information and future-oriented financial information publicly disclosed by the Corporation in filings with regulatory authorities, and the Corporation's policy for updating such information.

### **3. Internal Audit**

The Committee, in consultation with the Corporation's management, has the authority to engage, or shall delegate the authority to management to engage, the services of an accountant or accounting firm, other than the Corporation's external auditors, to perform supplemental reviews, special projects or other internal audit functions as necessary from time to time.

### **4. External Audits - Appointment and Authorization of Services**

The Committee has the authority to retain and oversee the activities of the external auditors, including the resolution of disagreements between the Corporation's management and the external auditor with respect to financial reporting. The Committee is authorized to determine the compensation, fees and all other terms of the external auditor's engagement, and to terminate the services of the external auditors, as the Committee may deem necessary or appropriate.

All external auditors shall report directly to the Committee.

At least annually, the Committee shall review and pre-approve the performance of all audit and lawfully permitted non-audit services, as well as the fees for such services. The Committee may delegate this function to the Committee's Chair so that, in the event of an issue arising between meetings of the Committee, such issues may be handled appropriately;

provided, however, that the Chair shall fully report all action taken pursuant to this delegated authority at the next ensuing Committee meeting. The Committee need not approve in advance any non-audit services where:

- (a) the aggregate amount of all such non-audit services provided to the Corporation constitutes not more than 5% of the total amount of revenues paid by the Corporation to the external auditor during the fiscal year in which the non-audit services are provided;
- (b) such services were not recognized by the Corporation at the time of the engagement to be non-audit services; and
- (c) such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by one or more members of the Committee to whom authority to grant such approvals has been delegated by the Committee.

The Committee shall meet with external auditors prior to the audit to confirm the planning and staffing of the audit.

#### **5. Oversight of Independence and Qualifications of External Auditors**

In order to ensure the independence of the external auditors, at least annually the Committee shall review the relationship between the auditors and the Corporation. Additionally, the Committee shall review all professional services provided by the external auditors to the Corporation for propriety. The Committee shall provide a report of its findings to the Board of Directors, including recommendations for action to ensure the continued independence of the external auditors.

As part of the review process, the Committee shall obtain a report by the external auditors describing:

- (a) the firm's internal quality control procedures; and
- (b) any material issues raised by the most recent internal quality-control review or the audit firm or by any other governmental or professional authorities or any private sector regulatory board within the preceding five years.

The Committee is responsible for ensuring compliance by the external auditors with independence requirements and shall obtain, at least annually, from the external auditors their certificate as to their independence from the Corporation.

### **III. OTHER POWERS AND RESPONSIBILITIES**

#### **1. Complaint Procedures**

The Committee is responsible for establishing and administering adequate procedures by which any concerns or complaints about any internal accounting and controls or any internal or external auditing issues or disagreements are received and resolved. These procedures

must allow for confidential and anonymous submissions by employees of the Corporation of concerns regarding questionable auditing or accounting matters.

The Committee shall ensure that all documents and records related to any complaint and investigation (where applicable) are retained for a period of five years, and that no person shall destroy any corporate or audit related records that may be subject to or related to an investigation by the Corporation or any federal, state or regulatory body.

The Committee shall annually assess the adequacy of these procedures.

## **2. Charter and Committee Review**

The Committee shall review and assess the adequacy of the Committee Charter annually and report to the Board of Directors the results of such assessment. Any recommendations are to be put before the Board of Directors for approval.

The Committee shall also perform an annual review of the Committee's performance and report to the Board of Directors on the results of such evaluation.

## **3. Examinations and Investigations**

The Committee may conduct such examinations, investigations or inquiries, and/or engage special accounting, legal or other advisors the Committee deems necessary.

## **4. Hiring Policies**

The Committee shall review and approve the Corporation's hiring policies regarding employees and former employees of the current and former external auditors.

## **5. Access**

In discharging its responsibilities, the Committee shall have full and direct access to all books, records, facilities and personnel of the Corporation.

# **IV. MEMBERSHIP AND ORGANIZATION OF COMMITTEE**

## **1. Qualifications**

The Committee is to be comprised of not less than three members, each of whom must be a director of the Corporation, and:

- (a) independent; and
- (b) financially literate (i.e., have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Corporation),,

in each case as determined in accordance with, and subject to available exemptions under, applicable laws.

**2. Chair**

The Board of Directors shall appoint one Committee member to serve as the Chair of the Committee.

**V. CONDUCT OF MEETINGS**

**1. Frequency**

The Committee shall meet at least four times per year, and at least once per calendar quarter. Additional meetings shall be scheduled as required or as requested by the Corporation.

**2. Quorum**

A majority of the Committee members, present in person or by video or telephone conference facilities, shall constitute quorum for the transaction of business.

**3. Notice**

The auditors are entitled to receive notice of every meeting of the Committee and submit agenda items as well as attend any meeting should they so choose.

**4. Non Committee Member Attendees**

The Committee may request that any director, officer or employee of the Corporation, or any other person from whom the Committee would like advice or counsel, attend any meeting to provide such information or guidance.

**5. Minutes**

A Committee member or the Corporate Secretary of the Corporation shall keep written minutes of the Committee meetings. The minutes are to be maintained with the books and records of the Corporation.

**6. Delegation of Authority**

The Committee has the authority to delegate to one or more of its members where appropriate except where otherwise prohibited by law or regulation.

Approved by the Board of Directors on March 17, 2008.