

***TIMMINCO***

**TIMMINCO LIMITED**

**ANNUAL INFORMATION FORM  
FOR THE YEAR ENDED DECEMBER 31, 2007**

**March 28, 2008**

## TABLE OF CONTENTS

CAUTIONARY NOTE ON FORWARD-LOOKING INFORMATION .....	iii
ITEM 1. CORPORATE STRUCTURE.....	1
Issuer .....	1
Subsidiaries .....	1
ITEM 2. GENERAL DEVELOPMENT OF THE BUSINESS.....	2
Overview .....	2
Silicon Businesses .....	2
Magnesium Business .....	3
Investment in Aluminum Wheels Business.....	4
ITEM 3. DESCRIPTION OF THE BUSINESS - SILICON.....	5
Products and Markets .....	5
Sales and Marketing .....	7
Manufacturing .....	9
Competition .....	10
Raw Materials.....	12
Employees .....	13
Environmental Matters .....	13
ITEM 4. DESCRIPTION OF THE BUSINESS - MAGNESIUM.....	13
Products and Markets .....	13
Sales and Marketing .....	14
Manufacturing .....	15
Competition .....	15
Raw Materials.....	16
Employees .....	17
Environmental Matters .....	17
ITEM 5. RISK FACTORS .....	18
Risks Relating to the Silicon Businesses.....	19
Risks Relating to the Magnesium Business.....	22
Other Risks .....	24
ITEM 6. DIRECTORS AND OFFICERS .....	31
Directors .....	31
Officers.....	32
Beneficial Ownership of Securities .....	33
Cease Trade Orders, Bankruptcies, Penalties or Sanctions .....	34
Conflicts of Interest .....	34

ITEM 7.	DIVIDEND POLICY.....	35
ITEM 8.	DESCRIPTION OF CAPITAL STRUCTURE .....	35
ITEM 9.	MARKET FOR SECURITIES .....	35
ITEM 10.	ESCROWED SECURITIES AND SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER.....	36
ITEM 11.	INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS .....	36
ITEM 12.	TRANSFER AGENT AND REGISTRAR.....	37
ITEM 13.	MATERIAL CONTRACTS .....	37
ITEM 14.	EXPERTS .....	38
ITEM 15.	AUDIT COMMITTEE, CHARTER AND AUDIT FEES.....	38
	Audit Committee Charter .....	38
	Composition of the Audit Committee .....	38
	Relevant Education and Experience .....	38
	Pre-Approval Policies and Procedures .....	39
	External Auditor Service Fees.....	39
ITEM 16.	ADDITIONAL INFORMATION.....	40
SCHEDULE A.	.....	41

In this Annual Information Form, the terms “the Company” or “Timminco” 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: limited history with the solar grade silicon business; expansion of the solar grade silicon business generally; production capacity expansion at the Bécancour facilities; protection of intellectual property rights; increasing and maintaining the purity of solar grade silicon; long-term contracts for supplying solar grade silicon; selling prices for solar grade silicon; price volatility for silicon metal; pricing and availability of raw materials for the silicon businesses; dependence upon power supply for silicon metal production; price volatility for magnesium metal; magnesium supply chain interruptions; dependence upon key customers of magnesium extruded products; manufacturing cost reduction initiatives; financing requirements for capital expenditures; limitations under existing credit facilities; foreign currency exchange; dependence upon key executives and employees; customer concentration; completion and integration of potential acquisitions, partnerships or joint ventures; risks with foreign operations and suppliers; environmental, health and safety laws and liabilities; equipment failures; transportation disruptions; conflicts of interest; intellectual property infringement claims; new regulatory requirements; labour disputes; and changes in tax laws. 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 March 28, 2008 and Timminco disclaims any intention or obligation to update or revise such information, except as required by applicable law.

## ITEM 1. CORPORATE STRUCTURE

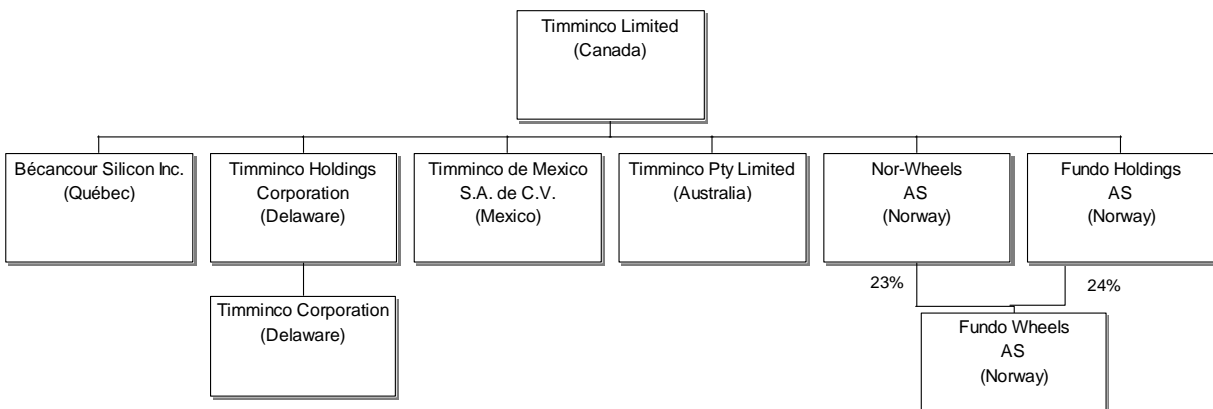
### Issuer

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; and (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.

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, 2007. All such subsidiaries are wholly-owned, directly or indirectly, by the Company unless otherwise specified. In addition, this chart shows the Company’s relationship with Fundo Wheels AS, of which the Company owned 47% of the issued and outstanding common shares as of December 31, 2007.



## **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 businesses and the magnesium business. The Company also owns a minority interest in Fundo Wheels AS, a Norwegian aluminum wheels manufacturer.

In its silicon businesses, the Company uses recently developed proprietary technology to process metallurgical grade silicon into solar grade silicon, for use in the manufacture of solar cells. The Company has expanded its solar grade silicon production capacity to 3,600 metric tons per year, and plans to further increase capacity to meet current and anticipated demand. The Company also produces silicon metal and ferrosilicon, for use in a broad range of industrial applications. The Company conducts its silicon businesses through its wholly-owned subsidiary, Bécancour Silicon Inc.

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

As at December 31, 2007, the Company had a total of 397 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, 2007, owned 52,559,733, or 50.5%, of the issued and outstanding common shares of the Company.

### **Silicon Businesses**

#### **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) 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 impurities 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 3,600 metric ton 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. In February 2008, the Company announced plans to quadruple its production capacity of solar grade silicon from 3,600 to 14,400 metric tons by mid-2009, to meet customer commitments under long-term contracts and to satisfy anticipated further demand. In March 2008, the Company executed a fifth contract with the world’s largest

solar cell manufacturer, to supply solar grade silicon in 2008 and 2009, with a possibility to extend the term from 2010 to 2013 with increased volumes.

The solar PV energy industry is expected to grow considerably in the coming years, driven by continued growth in the demand for electricity worldwide, the rising costs of fossil fuels, and the increasing preference for clean, renewable energy sources. The solar PV energy industry is expected to require significant growth in the supply of solar grade silicon in order to achieve industry experts' growth forecasts for global annual production of solar cells and modules

### **Silicon Metal**

The Company is, and has been for several years, one of North America's largest producers of silicon metal and ferrosilicon. 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, by suppliers to the manufacturers of solar cells for the solar PV energy industry. The Company's expertise in manufacturing silicon metal was the foundation for the Company's initial development of its solar grade silicon business. The Company's silicon metal business is expected to support the Company's solar grade silicon business in the future.

The Company initially acquired the silicon metal business in September 2004.

Following several years of depressed market prices for silicon metal, there has been a strong recovery with the spot (or open) market price for silicon metal doubling over the past year, principally due to increased demand from the solar PV energy industry, supply constraints and a tax on production out of China.

### **Magnesium Business**

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 and container industries, among others. The Company has 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 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 Russia and 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, putting pressure on downstream operations, like the Company's magnesium extrusion business and magnesium die casters. Although some of the increased costs can be passed on to customers, continued high levels of magnesium metal prices will be challenging for the

Company's magnesium extrusion and fabrication business. In response, the Company has focused on lowering its cost structure, by shifting production of low value-added extruded products and specialty metals to China, as well as by maximizing fabrication activities at low cost facilities, such as in Nuevo Laredo, Mexico.

The Company's magnesium business also includes the sale of specialty magnesium, calcium and strontium alloys. The Company ceased its strontium and calcium manufacturing operations in April 2004, but continues to leverage its expertise and proprietary technologies in marketing and selling such products.

The Company is positioning its magnesium business for potential divestiture or other strategic transaction. The Company expects to continue efforts to reduce the cost structure of its magnesium business and is pursuing opportunities to eliminate its short position in magnesium metal, including potential joint ventures with producers of low cost magnesium metal. The Company intends to finance any longer term incremental capital requirements for its magnesium business independently of its silicon businesses.

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

The Company has a minority ownership interest in Fundo Wheels AS, a Norwegian company that manufactures cast aluminum wheels for automobile manufacturers ("Fundo Wheels"). The Company initially acquired an ownership interest of approximately 24% in Fundo Wheels in March 2004 and augmented its ownership to approximately 47% in May 2005. Since then, the Company and other shareholders of Fundo Wheels have made further equity investments, without affecting their proportionate ownership interests. The Company has also provided funding by way of subordinated convertible loans advanced to Fundo Wheels in September and December 2007, and again in February 2008. In March 2008, Fundo Wheels reorganized its debt, including some of the loans due to the Company and the other shareholders, and, as a result, the Company's current ownership interest in Fundo Wheels is approximately 45% of the outstanding equity. The February 2008 loan currently remains outstanding.

Fundo Wheels has a single facility in Hoyanger, Norway with an annual production capacity of 1.3 million aluminum cast wheels. It has its own research, development and design capabilities, which utilize state-of-the-art technologies and has developed specific expertise in large diameter wheels. Fundo Wheels' customer base includes some of the world's leading automobile manufacturers. Its aluminum wheels meet the strictest product quality and delivery requirements. Fundo Wheels is also expanding its product offerings and has developed a patented process to manufacture light-weight, two-piece aluminum wheels. These hybrid wheels are unique in their reduced weight and design flexibility, and Fundo Wheels has been awarded a hybrid wheel development contract.

The Company's investment in Fundo Wheels is accounted for as an equity investment and does not constitute a separate reportable segment of the Company. The Company is positioning its investment in Fundo Wheels for potential divestiture or other strategic transaction. The Company intends to finance any longer term incremental capital requirements for its investment in Fundo Wheels independently of the Company's silicon and magnesium businesses.

### **ITEM 3. DESCRIPTION OF THE BUSINESS - SILICON**

#### **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 automotive industries, where it is used as an alloying component.

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 boron and phosphorous, and be within a range of total other impurities, for the best performance in solar cell applications. Solar grade silicon has principally been produced using polysilicon, with certain impurities 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 phosphorous and other impurities.

#### **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. Industry experts forecast that the annual worldwide solar cell and module production will increase from 4 gigawatts in 2007 to more than 20 gigawatts in 2011. 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 is too pure for solar energy applications, and solar cell manufacturers must increase its conductivity by adding impurities, typically boron and phosphorous. 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 not kept pace with demand, mainly driven by the solar PV energy industry. Polysilicon for the solar energy industry remains in short supply due to the significant barriers to both capacity expansion for existing producers and entry by new participants.

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”, and an impurity count of 0.8 parts per million (ppm) of boron and less than 5.0 ppm of phosphorous. 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.

### **Silicon Metal**

Silicon metal and ferrosilicon are produced from quartz and other materials using similar smelting processes. They can each 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, while ferrosilicon generally has lower silicon concentrations and a higher iron content.

The principal markets for silicon metal are the chemical and electronics 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 semi-conductors, 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 \$87.7 of the Company’s consolidated revenues in 2007 (\$87.2 million in 2006).

The Company produces ferrosilicon having a silicon concentration of 90%. The Company formerly also produced ferrosilicon of concentrations of 85% and 75%, but has ceased production of these grades.

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>Ferrosilicon</i>		
90% ferrosilicon	Iron foundries/steel	Specialty foundry alloys
<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 and ferrosilicon 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.

### **Sales and Marketing**

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

The customers of the Company's silicon businesses in North America represented approximately 65% of sales in 2007 (61% in 2006), and in Western Europe accounted for approximately 33% of sales in 2007 (38% in 2006). The largest customer of the silicon businesses represented approximately 24% of the silicon businesses' sales in 2007 (25% in 2006), while the largest five customers accounted for approximately 69% of such sales in 2007 (71% in 2006) and the largest ten customers accounted for approximately 85% in 2007 (78% in 2006). Sales to the chemical industry represented approximately 48% of the silicon businesses' sales in 2007 (same in 2006), while the aluminum industry was the next largest at approximately 22% in 2007 (18% in 2006).

### **Solar Grade Silicon**

During 2007, the Company executed four long-term contracts for the supply of solar grade silicon. These four contracts provide for shipments of up to 6,000 metric tons of solar grade silicon per year starting in 2009. The Company produced and shipped 89 metric tons in 2007, 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.

In March 2008, the Company executed a fifth contract to supply 410 and 3,000 metric tons of solar grade silicon in 2008 and 2009, respectively, to Q-Cells AG, the world's largest manufacturer of solar cells. The Company and this customer also agreed to negotiate towards a further contract for the supply of up to 6,000 metric tons per year in the years 2010 to 2013, at pricing to be negotiated contingent upon market conditions. If the contract is extended to 6,000 metric tons per year for this period, it would increase the Company's commitment for deliveries of solar grade silicon business to 12,000 metric tons per year beginning in 2010. The parties have targeted to complete their negotiations by the end of July 2008.

The Company's long-term contracts for solar grade silicon provide for renegotiations on pricing in certain circumstances. Also, the Company continues to be in negotiations with new and existing customers in respect of additional sales of solar grade silicon starting in 2009 and beyond. The Company's on-going pricing negotiations will be significantly influenced by the prevailing market price of solar grade silicon at that 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.

Over the past several years, the price of silicon metal has recovered from the historical lows of approximately \$0.50 per pound experienced in 2003. Over the past 12 months, silicon prices have significantly increased, with spot market prices surpassing \$1.80 per pound in February 2008. This increase is due to a number of market conditions, including higher energy costs, a number of independent factors that have constrained supply, and increased market demand, particularly from the solar PV energy industry.

As the Company continues to grow its solar grade silicon business, 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 businesses 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's solar grade silicon business initially constituted a small scale production facility, which had annual capacity of 300 metric tons of solar grade silicon and 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), was used to test the Company's proprietary purification processes and to produce initial samples of solar grade silicon for prospective customers. This facility ceased operations upon the start of production on the first production line at the new 3,600 metric ton facility for solar grade silicon production. The Company expects to restart the equipment from this small scale facility as a research and development facility.

The Company started construction of a larger solar grade silicon production facility, having a capacity of 3,600 metric tons per year, in August 2007. This facility has three 1,200 metric ton production lines, the first of which was completed and operational in December 2007 and the last two of which were completed and operational in February 2008. This facility, which is located in a newly-constructed building on the Bécancour site, is 9,172 m<sup>2</sup> in size.

In February 2008, the Company announced plans to expand its solar grade silicon production capacity, from 3,600 metric tons to 14,400 metric tons per year. This expansion will include: the construction of a new production facility equal in capacity to the existing 3,600 metric ton facility; the installation of new purification equipment in the Company's silicon metal and ferrosilicon production facility, to process first 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 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) and impurity counts for phosphorous and boron. 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. 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, which claims a 2007 priority date. It generally takes several years 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 business. The Company has also filed other informal (or provisional) patent applications relating to solar grade silicon production.

## **Silicon Metal**

The Company's silicon metal business at the Bécancour site constitutes a manufacturing facility with three electric arc furnaces for the production of silicon metal and ferrosilicon at an 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. In the production of ferrosilicon, which is essentially the same process as silicon metal, the raw materials introduced into the furnace also include steel scrap and iron ore pellets. 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 or ferrosilicon. Molten silicon metal or ferrosilicon 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 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 and ferrosilicon production facility uses a compound electrode process patented by the Company, which permits the production of silicon metal and ferrosilicon 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 business competes with traditional producers of silicon metal, such as Dow Corning, 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 business:

- ***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 phosphorous levels. The Company has been able to produce high purity silicon with 0.8 ppm boron and less than 5.0 ppm phosphorous using

- ***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 is not insignificant. Conventional polysilicon processes can require capital investments of as much \$100 per kilogram of annual capacity (which equates to a \$500 million investment for 5,000 metric tons of output), and even more for new entrants to the market, whereas the capital investment for the Company's process is up to 20 times lower (the Company invested \$24 million to build 3,600 metric tons of annual capacity). The cost of electricity used in the Company's process is as little as 2% of that used in conventional polysilicon processes, which require up to 135 kilowatt hours per kilogram of output, compared to 2 kilowatt hours per kilogram of output required by the Company's process. Finally, the Company's process allows the use of less expensive raw materials to produce solar grade silicon that meets our customers' specifications. The Company believes that it can achieve an average cost of \$12 per kilogram for 2008, approximately half that of the \$20 to \$25 per kilogram that it generally costs existing polysilicon producers.
- ***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, despite the current shortage of supply in the marketplace, existing market participants are generally resistant to adding capacity due to both the significant investment and the long time horizon.
- ***Access to Silicon Metal.*** There is currently a shortage in the global supply of silicon metal, which has caused silicon metal prices to increase significantly. 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, at reduced costs, enhances the Company's competitive position for solar grade silicon.

### **Silicon Metal**

The Company's silicon metal business competes globally, primarily on the basis of product quality, service and price. Its competitors include silicon metal producers Elkem ASA, Fesil ASA, and Ferroatlantica S.L.. Other competitors in both the silicon metal and ferrosilicon markets include Simcala, Inc. and Globe Metallurgical, Inc. Foreign competition, particularly from Chinese producers, is more predominant in the markets for ferrosilicon. Chinese producers have developed a large market share of silicon products used in the western world, but have historically supplied very little high-value silicon metal and ferrosilicon, whereas the Company has historically produced high-value silicon metal and ferrosilicon.

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

- ***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 and ferrosilicon 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 and ferrosilicon 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 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. Avoiding the commodity grade ferrosilicon markets, the Company develops and sells specialty ferrosilicon into niche applications tailored for its customers and provides technical support.

### **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, 2007, the Company's silicon businesses collectively employed 238 employees, including 59 salaried and 179 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 expires at the end of April 2008. The Company believes that relations with its employees in the silicon businesses 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 businesses. 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, will be subject to a new regulation regarding disposal sites coming into effect in January 2009. 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 summary plan was submitted to the Ministry in June 2007 and a detailed plan is expected to be submitted by July 2008.

## **ITEM 4. DESCRIPTION OF THE BUSINESS - MAGNESIUM**

### **Products and Markets**

Magnesium metal is used in a wide variety of applications where its light-weight, excellent machinability 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 \$29.4 million in 2007 (\$34.4 million in 2006).

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

*Calcium and Strontium 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 Canada, 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 2007, the largest five customers accounted for approximately 48% (53% in 2006) of the total magnesium business' sales, with the single largest customer accounting for approximately 28% (26% in 2006) of such sales. In 2007, approximately 92% of the magnesium business' sales were made outside of Canada (87% in 2006): approximately 67% were made in the United States (65% in 2006); approximately 6% were made in Europe (7% in 2006); approximately 9% were made in Australia, Japan and other Pacific Rim countries (7% in 2006); and approximately 9% were made in Mexico and South America (8% in 2006).

During 2007, the Company commenced renegotiations of its long-term contracts with two 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.

The Company's magnesium business includes a production facility at Haley, Ontario, located approximately 100 kilometres west of Ottawa, Ontario. This facility produces magnesium extrusion billet, which is the feedstock for the Company's magnesium extrusion operations in Aurora, Colorado. It also produces specialty magnesium granules and turnings.

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, 2007.

<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.

## **Competition**

The Company believes it is the largest producer in the world of value-added magnesium extruded and 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. At its Haley facility, the Company also has the capability of induction melting, alloying and casting equipment, mechanical and metallurgical testing equipment and other specialized equipment.
- ***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. The Company has had a fixed-price supply contract with a Chinese supplier since May 2006 for substantially all of the magnesium metal required by the Company in the production of extruded magnesium anode rods. This contract was renewed with adjusted pricing at the end of 2007 and will expire at the end of 2009. The Company purchases 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 increased substantially in 2007, from about \$2,400 to over \$4,000 per metric ton. 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 strontium and calcium based products are currently purchased under an exclusive supply agreement with a Chinese supplier.

## **Employees**

As at December 31, 2007, the Company's magnesium business employed 151 employees, of which 46 were salaried and 105 were hourly employees.

The Haley facility had 24 hourly employees as at December 31, 2007, who are governed by a collective agreement with the United Steelworkers of America, which expires in May 2010. The 38 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 expires 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, to cover the eventuality that these mining operations should be closed, together with appropriate financial assurance covering its obligations pursuant to the plan. These mining operations are in temporary suspension under the *Mining Act* (Ontario). In the event that the mining operations are closed, the Company would be required to perform the work outlined in the mine closure 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 four years. The Company has paid the initial payment and the first two years' payments. The schedule for mine closure 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. In the event that the actual closure costs for these mining operations exceed the amount of the financial assurance, the Company would be responsible for such excess costs.

Tests performed by the Company in respect of effluents discharged from the Haley facility into a nearby water body indicated elevated ammonia and Ph levels resulting in seasonal exceedences of permitted toxicity limits. At the request of the Ministry of Environment (Ontario), the Company improved its treatment of effluent discharges from this facility, and spent \$130,000 during 2007 for upgrading its effluent discharge treatment system. The facility's discharges are currently in compliance with the permitted limits. However, the possibility of environmental impacts from these operations remains a potential risk and additional upgrades to the treatment of these effluents could be required.

With respect to the Company's former adhesives 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 2007, 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. Financial assurance to operate this system pursuant to the Certificate of Approval from the Ministry of the Environment (Ontario) was initially set at \$230,000. In 2003, the Ministry expressed renewed interest in this site, including in respect of the effectiveness of the current groundwater treatment system, the extent of the plume and the status of financial assurance at the site. 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 discussed the results of the investigation with the Company, which developed a plan for further investigations and remedial activities. The Ministry issued an order in October 2007 requiring the Company to implement the plan and to report back to the Ministry. 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 expects to submit its final report to the Ministry by the end of March 2008 and that, once the Ministry reviews the final report, a meeting will be convened to discuss the results and whether any added remedial action is required to be taken, either voluntarily or pursuant to a further order.

## **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. The following risk factors should be carefully considered in addition to other information included in this Annual Information Form in order to fully understand these risks and uncertainties.

## **Risks Relating to the Silicon Businesses**

***Evaluating the operations and prospects of the Company's solar grade silicon business may be difficult because of its limited history with this business.***

There is limited historical information with which to evaluate our solar grade silicon business. We began this business on a trial basis in 2006 and only operated a small scale production facility for virtually all of 2007, producing a total of 89 metric tons of solar grade silicon last year. The Company's new solar grade silicon production facility in Bécancour, having a production capacity of 3,600 metric tons per year, only started production on the third of its three 1,200 metric ton production lines in February 2008. The Company has experienced and expects to continue to experience rapid growth rates in this business and the solar photovoltaic energy industry generally. As such, the historical financial results for the Company's solar grade silicon business do not provide a meaningful basis for evaluating its future financial performance. The prospects for this business should instead be evaluated in light of the risks, experiences and challenges that 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 below.

***The expansion of the solar silicon business presents risks that could materially adversely affect the Company's results of operations.***

The Company is investing significant resources and efforts in expanding its solar grade silicon business. In order to succeed in the currently planned expansion activities, the Company will need to devote capital expenditures as well as management time and related resources to the solar grade silicon business. These activities could disrupt the Company's other businesses, affect the Company's operating results and distract the Company's executive management team. Pursuing additional business in the solar photovoltaic industry is also subject to additional risks, including refining and adapting the Company's manufacturing technologies and processes, developing market acceptance of our products, and establishing and maintaining sufficient internal research and development, sales, production and customer service infrastructures to support these efforts. There is no assurance that the Company will be able to successfully expand its solar grade silicon business.

***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 announced in February 2008 that it will proceed with an additional expansion of its production facilities in Bécancour, to increase its production capacity for solar grade silicon from 3,600 metric tons per year to 14,400 metric tons per year. The expansion is expected to have a capital cost of approximately \$65 million and should be completed by mid 2009, on a schedule that is expected to enable the Company to meet all customer commitments in effect at that time. The expansion will include a new production facility equal in capacity to the 3,600 metric ton facility that was completed and fully commissioned in February 2008. In addition, new production lines are planned to be installed in the Company's existing silicon metal and production facility in Bécancour, to process first pass material. The balance of the project is expected to comprise the construction of new buildings for packaging and shipping, maintenance and employee services. Funding of the project is expected to be from current liquidity, customer deposits under long-term supply agreements and expected cash flow from operations, and is expected to be expended during 2008 and the first half of 2009. This expansion will involve significant risks to the Company's solar grade silicon business, including potential delays in construction of the new facilities and commissioning of equipment, unanticipated costs that may exceed the Company's capital budget for the project. A failure to complete this expansion within the expected timeframe and on

budget could have a material adverse effect on the Company's financial position, results of operations and liquidity.

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

The success of the Company's solar grade silicon business 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.

As well, the Company attempts to protect its trade secrets through physical security measures at its solar grade silicon production facilities in Bécancour, as well as confidentiality agreements with the Company's employees.

There is no assurance that the Company has adequately protected or will be able to adequately protect its intellectual property rights, through these patent applications, security measures or other means. Specifically, 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 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 Company's solar grade silicon business may be harmed if it does not achieve its purity objectives in respect of solar grade silicon.***

The Company is currently able to produce solar grade silicon at a purity level of 99.999%, or "five nines", with levels of phosphorus and boron that are acceptable to existing customers. The Company may be able to achieve a higher purity level, which could enhance its competitive advantage and may allow for increased selling prices and margins for the Company's solar grade silicon business. The Company intends to invest certain resources in an effort to achieve an improvement in, and maintain the consistency of,

purity levels of its solar grade silicon. However, there is no assurance that the Company will consistently achieve any higher purity level for its solar grade silicon. Any inability to improve or consistently maintain the purity of its solar grade silicon could result in the Company not being able to attract new customers or retain existing customers, which in turn could have a material adverse effect on the Company's financial position, results of operations and liquidity.

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

In 2007, the Company executed four long-term commercial contracts with four separate customers for the supply of solar grade silicon. The Company has committed to supply up to 6,000 metric tons of solar grade silicon per year starting in 2009 under these contracts. The Company has also received orders from additional customers for the supply of solar grade silicon in 2008. In March 2008, the Company executed a fifth contract with a new customer to supply 410 metric tons of solar grade silicon in 2008 and 3,000 metric tons in 2009, and the parties may agree to a further contract to supply up to 6,000 metric tons per year in the years 2010 to 2013. An inability on the part of the Company to satisfy the volume requirements under these contracts or orders, or a shortfall in the volumes of solar grade silicon actually purchased by these customers relative to the Company's expectations, or delays in the timeframes within which the Company expects these customers to take delivery, could have a material adverse effect on the Company's financial position, results of operations and liquidity.

The four long-term commercial contracts executed in 2007 also require that the parties agree upon the final specifications for the solar grade silicon to be supplied, based on targeted maximum impurity levels. These contracts also contemplate that the Company will attempt to achieve higher purity (lower impurity) levels, and that the parties will negotiate prices for such improved solar grade silicon, if achieved. The Company may try to negotiate a higher selling price with its customers, based on improvements in quality. However, a failure to reach agreement with any customer regarding the exact specifications for the solar grade silicon to be supplied could cause the termination of the contract with such customer. There is no assurance that the Company will be able to finalize the specifications with its customers. A termination of any of the existing long-term commercial contracts could have a material adverse effect on the Company's financial position, results of operations and liquidity.

***Increased production capacity for solar grade silicon could reduce selling prices, which could adversely affect the Company's results of operations.***

Some of the Company's long-term contracts for solar grade silicon provide for renegotiations on pricing in certain circumstances, and the Company is also in negotiations with customers in respect of additional production capacity starting in 2009. These pricing negotiations will be significantly influenced by the prevailing market price of solar grade silicon at that point in time. Some of the Company's competitors have announced capacity expansions for the production of solar grade silicon, and the Company also has announced an additional expansion of production capacity, from 3,600 metric tones per year to 14,400 metric tons per year. There is a risk that the prevailing market price of solar grade silicon will decline as more capacity is built and becomes operational. 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 is subject to volatility in the selling price for its silicon metal.***

The Company's silicon metal business is essentially based on the sale of commodities. Revenues, earnings and cash flows from the sale of silicon metal and ferrosilicon are sensitive to changes in market prices, over which the Company has little or no control. 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. To the extent that the Company is unable to reduce its exposure to such commodity price risks, any decrease in the prevailing selling prices for silicon metal 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 businesses could have a material adverse effect on the Company's results of operations.***

Coking coal, also known as metallurgical coal, is a significant raw material in the production of metallurgical silicon, and the market price of coal is an important factor influencing cash flows and earnings of the Company's metallurgical silicon business. The prices of coking coal have risen in the last few years, and more significantly since the beginning of this year, principally due to supply shortages. To the extent that the Company is unable to recover recent and future coal price increases through higher selling prices of its metallurgical silicon, or to negotiate lower purchase prices for coal, such price increases could have a material adverse effect on the Company's financial position, results of operations and liquidity. The Company also buys silicon metal in the spot (or open) market to balance its production, and is therefore subject to fluctuations in market price, which has increased due to supply and demand forces. The Company is also subject to risks associated with fluctuations in the prices for, and the availability of, other raw materials used in its silicon businesses, such as quartz, electrodes and electrode paste. The Company mitigates these risks in part through long-term supply contracts or producing the raw materials itself. However, there is no assurance that raw materials that are to be procured from third parties will be available in the quantities or at the quality levels as may be required from time to time for the Company's manufacturing operations. The lack of timely availability of adequate raw materials could have a material adverse effect on the Company's financial condition, results of operations and liquidity.

***The Company's silicon businesses are 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 has taken measures 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 has varied significantly in the past several years and may vary significantly 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.

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

***Increases in the cost 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 a significant impact on the Company's cash flows and earnings from its magnesium business. The Company currently purchases all of the magnesium metal it uses in the production of magnesium extrusion billet, which is the feedstock for the Company's magnesium extrusion operations, from third party suppliers in Russia and China. The Company is subject to short-term pricing cycles dictated by overall supply and demand for magnesium metal. The price of magnesium metal increased dramatically in 2007, rising from about \$2,400 to over \$4,000 per metric ton. The Company has

contracted for the supply of magnesium metal at fixed prices for its requirements in respect of extruded magnesium anode rods for 2008. However, suppliers have been unwilling to provide long-term contracts with fixed pricing for the Company's other requirements for magnesium metal. As a result, the Company will continue to be subject to volatility in the commodity price of magnesium metal. The Company attempts to pass on increased magnesium metal costs to its customers, through increased prices for its magnesium extruded products. However, the Company's existing customer contracts may limit the extent of, or may not allow entirely, such price adjustments, and price increases generally reduce the competitiveness of the Company's magnesium extruded products, relative to other competitors, particularly those based in China. In addition, the Company 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. To the extent that the cost of magnesium metal continues to rise and the Company is unable to secure long-term fixed price supply contracts for all of its requirements of magnesium metal or is unable to pass on the increased costs to its customers through price increases, such increased costs could have a material adverse effect on the Company's financial position, results of operations and liquidity.

***Risks associated with the availability of magnesium metal from foreign suppliers could cause supply chain interruptions, which could have a material adverse effect on the Company's results of operations.***

The Company currently purchases all of the magnesium metal it uses as a feedstock for its magnesium business from a number of third party suppliers in Russia and China, and the Company is dependent upon continued supply from such suppliers. The Company may also outsource some of its existing magnesium operations to third party suppliers as part of the on-going manufacturing cost reduction initiatives in the Company's magnesium business. There are several factors that could contribute to financial difficulties or impose operational constraints that may cause an inability of any such supplier to continue to produce and supply a sufficient quantity of magnesium metal or to perform the outsourced production functions in order to meet the Company's requirements, including: current economic conditions, including a tightening of credit availability; increases in export duties or the loss of manufacturing tax credits; the environmental and occupational health and safety impacts of certain magnesium metal production methods; and political factors. There is no assurance that the Company's foreign suppliers will not be affected by these factors, or that any efforts that the Company may take in response to or in anticipation of supply constraints will effectively mitigate the Company's exposure to supply chain risk in respect of magnesium metal or outsourced magnesium production functions. A disruption in the Company's supply chain for its magnesium business could have a material adverse effect on the Company's results of operations, financial condition and liquidity.

***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, two of these long-term customer contracts are currently 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 conclude new long-term commercial contracts with such existing customers on acceptable terms to the Company, the Company's sales of magnesium extruded and fabricated products could decline significantly, which could have a material adverse effect on the Company's financial position, results of operations and liquidity.

***The Company's magnesium business may not be able to compete effectively if manufacturing costs are not reduced, and cost reduction initiatives may have an adverse effect on the Company's results of operations.***

The success of the Company's magnesium business will depend in part on continuous reduction of manufacturing costs and operating expenses to offset future price erosion in the market for the Company's magnesium products. During 2007, the Company continued to engage in various cost-cutting and other initiatives to reduce costs and increase productivity, and the Company continues to implement and explore such initiatives. Some of these initiatives may include the closure of the Company's existing manufacturing facilities or reduction of headcount, and the outsourcing of certain operations formerly performed by the Company at its own facilities. There is no assurance that the Company will be able to continue to reduce manufacturing costs and operating expenses. Moreover, any closure of the Company's existing manufacturing facilities or reduction of headcount, together with an inability of the Company to successfully implement any outsourcing activities, may adversely affect the Company's ability to manufacture and supply products to meet customer demand and may result in other production disruptions. In addition, such cost reduction initiatives, particularly facility closures or headcount reductions, could create additional liabilities and restructuring costs. The occurrence of any of the foregoing could have a material adverse effect on the Company's financial position, results of operations and liquidity.

#### **Other Risks**

***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 capital expenditures. The Company is expanding its production facilities in Bécancour, to increase its production capacity for solar grade silicon to 14,400 metric tons per year, which is expected to cost approximately \$65 million. The Company 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, including in connection with any potential divestiture or other arrangements in respect of the magnesium business or the Company's investment in Fundo Wheels. The Company also expects to finance any longer term incremental capital requirements for its magnesium business and its investment in Fundo Wheels independently of the silicon businesses. The Company expects to fund its requirements for capital expenditures from operating cash flows from each of its businesses, existing cash balances, existing credit facilities, potential future debt financing, customer pre-payments 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; and cost overruns in connection with its projects. If sufficient sources of financing are not available in the future for these or for other reasons, or if the Company is unable to finance its businesses and investments independently of each other, 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 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 and capital expenditures beyond a certain level. For example, where the Company has not satisfied a certain fixed charge coverage ratio as of the end of a fiscal quarter, the amount that the Company may borrow under the credit agreement during the next fiscal quarter will be limited by an amount equal to the difference between (i) the borrowing base (net of availability reserves), which was US\$23.6 million as of December 31, 2007, and (ii) US\$17.0 million. As at December 31, 2007, the Company did not satisfy this fixed charge coverage ratio, so this limitation applies for the first quarter of 2008, and may continue to apply in subsequent fiscal quarters. The Company has also not been able to comply with its financial covenants under the credit agreements for the last several fiscal quarters, and has relied upon waivers of non-compliance from its lender. A failure by the Company to achieve specified financial ratios 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 result 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 businesses 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 business 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's consolidated revenue have 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 metal 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, 2007, the Company's top three customers accounted for 15%, 14% and 11% of the Company's consolidated revenues (12%, 15% and 11%, respectively, for the year ended December 31, 2006). 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 businesses 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 businesses could have a material adverse effect on the financial position, results of operations and liquidity of the Company.

***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 a number of businesses that may be deemed to be hazardous to the environment, and the Company must also comply with stringent regulatory requirements in a number of 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 \$2.4 million as at December 31, 2007 as an estimation of its future site restoration and closure costs. 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 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.

***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 of December 31, 2007, AMG owned 52,559,733, or 50.5%, of the issued and outstanding common shares of the Company. 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 17,260,449 common shares of the Company issuable upon the exercise of the conversion option under such notes, representing an additional 16.6% of the Company's issued and outstanding common shares, as at December 31, 2007 (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 businesses, including its solar grade silicon business. 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.

The Chairman of the Board and Chief Executive Officer, Dr. Heinz Schimmelbusch, and the Vice-Chairman, Mr. Arthur Spector, of the Company 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 a shareholder of AMG, and a subsidiary of which is the holder of convertible promissory notes of the Company. Dr. Schimmelbusch is also non-executive chairman of Allied Resource Corporation, a company that provides wastewater purification, thermal treatment and petroleum waste recycling and gasification services, and which employs Mr. John Fenger, an executive officer of the Company. The Company reimburses Allied Resource Corporation for a significant portion of Mr. Fenger's remuneration, since he devotes a significant portion of his time to 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.

***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 infringes 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 obligations and provisions of REACH affecting the Company will apply from June 1, 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 tonne 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.

***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, Haley and Nuevo Laredo facilities are unionized, and the collective bargaining agreements with certain of unions expire in 2008 and are 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.

***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.

## 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 <sup>(2)</sup> Pennsylvania, USA	2003	Deputy Chair of the Management Board of AMG Advanced Metallurgical Group N.V.
Jay C. Kellerman <sup>(3)(4)</sup> Ontario, Canada	2004	Partner at Stikeman Elliott LLP, a law firm
Jack L. Messman <sup>(4)(5)</sup> Massachusetts, USA	2003	Corporate Director
Michael D. Winfield <sup>(3)(4)(5)</sup> Illinois, USA	2004	Corporate Director
Mickey M. Yaksich <sup>(3)(5)</sup> Ontario, Canada	1998	Partner and Chief Operating Officer of McMillan Binch Mendelsohn LLP, a law firm
John P. Walsh Delaware, USA	2006	President – Magnesium Division of the Company

#### Notes:

- (1) Chairman of the Board
- (2) Vice-Chairman
- (3) Member of the Audit Committee
- (4) Member of the Human Resources, Compensation and Pension Committee
- (5) 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 31, 2007. 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 29, 2008. Currently, no executive committee of the Board of Directors has been constituted.

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. Walsh joined the Company as President and Chief Executive Officer in December 2006. Prior to that, he was President of Ceramic Protection Corporation, a ceramic, polymer and composite products manufacturing company, from September 2004 to November 2006, and President and Chief Executive Officer of Alanx Wear Solutions, Inc., which was acquired by Ceramic Protection Corporation, from October 1999 to September 2004.

## Officers

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

<u>Name</u> and <u>Residence</u>	<u>Office</u>
Heinz C. Schimmelbusch Pennsylvania, USA	Chairman of the Board (since April 2003) and Chief Executive Officer (since August 2007)
Arthur R. Spector Pennsylvania, USA	Vice-Chairman (since March 2004)
René Boivert Québec, Canada	President and Chief Executive Officer of Bécancour Silicon Inc. (since August 2007)
John P. Walsh Delaware, USA	President – Magnesium Division (since August 2007)
Robert J. Dietrich Ontario, Canada	Executive Vice President – Finance and Chief Financial Officer (since December 2006)
Tim R. Pretzer Colorado, USA	Vice President – Special Projects, Magnesium Division (since August 2007)
John Fenger Pennsylvania, USA	Vice President – Aluminum Products (since May 2004)
Mark G. Swalwell Ontario, Canada	Corporate Controller (since February 2004)
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 and Messrs. Spector and Walsh, who are also directors 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. Spector was Interim Chief Financial Officer of the Company from October 2004 to April 2005.
- Mr. Boisvert joined Bécancour Silicon Inc. (“BSI”), the wholly-owned subsidiary of the Company that conducts the Company’s silicon businesses, 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. 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. Pretzer joined the Company in July 1998 as General Manager of the Company’s Aurora facility. Prior to April 2003, he was Vice President - Commercial. Mr. Pretzer was President and Chief Operating Officer of the Company from April 2003 to August 2005, and was President – Magnesium Division from September 2005 to August 2007.
- Mr. Fenger was, and still is, Managing Director of Allied Resource Corporation, which was his principal occupation prior to being appointed Vice President – Aluminum Products of the Company.
- Mr. Swalwell joined the Company in February 2004. Prior to that, Mr. Swalwell was Vice President Finance of MIST Inc., a financial software company, from June 2000 to February 2003, and was Manager, Assurance & Advisory Services at Deloitte & Touche LLP, an accounting firm, prior to June 2000.
- 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, 2007, the directors and executive officers of the Company as a group (consisting of 13 individuals) beneficially owned, or controlled or directed, directly or indirectly, 1,138,250 common shares of the Company, representing 1.1% 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 3,837,500 common shares of the Company.

In addition, Dr. Schimmelbusch and Mr. Spector are members of the Management Board of AMG, which owned 52,559,733, or 50.5%, of the issued and outstanding common shares of the Company as at December 31, 2007. 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 17,260,449 common shares of the Company issuable upon the exercise of the conversion option under such notes, representing

an additional 16.6% of the Company's issued and outstanding common shares, as at December 31, 2007 (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, Vice President – Aluminum Products, 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.

### **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, 2007, 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 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 103,919,838 were issued and outstanding as at December 31, 2007. 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 11 to the Company's audited consolidated financial statements for the year ended December 31, 2007, 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 2007 calendar year:

<u>Month</u>	<u>Trading Volume</u>	<u>Closing Price Range</u>
January	1,252,705	\$0.25 – 0.33
February	1,711,797	\$0.30 – 0.65
March	4,591,970	\$0.34 – 0.75
April	46,610,870	\$0.65 – 4.13
May	23,346,366	\$3.21 – 4.49
June	33,475,295	\$3.43 – 6.24
July	20,148,087	\$5.22 – 6.63
August	37,806,564	\$4.10 – 8.00
September	55,956,466	\$6.50 – 16.35
October	38,135,137	\$13.50 – 18.65
November	39,642,170	\$10.07 – 16.44
December	32,623,070	\$13.92 – 23.31

**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, 2007:

<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	5,136,140 <sup>(1)</sup>	4.9%

Note:

(1) This amount represents all of the common shares issued to AMG on September 27, 2007, pursuant to the Subscription Agreement described below under “Item 11 – Interest of Management and Others in Material Transactions”. Under the Subscription Agreement, the common shares were issued on a private placement basis and were subject to certain contractual resale (transfer) restrictions in Canada in order to satisfy applicable securities laws. Such restrictions ended on January 28, 2008.

**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 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, 2007, 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 6,546,163 common shares (based on the noon exchange rate on December 31, 2007 of US\$1 = Cdn\$0.9881 as reported by the Bank of Canada).

In December 2006, the Company borrowed EUR 700,000 from ALD International. The proceeds of the loan, which bore interest at 11% and was due in December 2007, were used to invest in shares of Fundo Wheels. The Company repaid this loan and accrued interest in May 2007.

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.

Concurrently with the Company's public offering of its common shares in September 2007, the Company completed a private placement of its common shares to AMG pursuant to a subscription agreement dated September 27, 2007 between the Company and AMG (the "Subscription Agreement"). Under the Subscription Agreement, AMG purchased 5,136,140 common shares at a price of \$8.50 per share, which was the same price for the common shares issued in the public offering, for gross proceeds to the Company of \$43.7 million. The Company did not pay any commission or fee to AMG in connection with its subscription for common shares pursuant to the Subscription Agreement. Immediately following such transactions, AMG owned 52,559,733 common shares of the Company, representing 50.6% of the outstanding share capital at that time.

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 Subscription Agreement dated September 27, 2007 between

the Company and AMG, which is a material contract entered into during the year ended December 31, 2007.

#### **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, 2007 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 most recently reviewed and 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), Jay C. Kellerman 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 November 7, 2007.

Prior to the Company's annual shareholders meeting on May 31, 2007, the Audit Committee was comprised of three members: Richard Lister (Chair), Jack L. Messman and Michael D. Winfield. After such meeting and until November 7, 2007, the Audit Committee did not consist of three independent members of the Board of Directors. Accordingly, the Company's interim financial statements for the quarter ended June 30, 2007 were approved by the full Board of Directors.

##### **Relevant Education and Experience**

Mr. Yaksich is a partner and the Chief Operating Officer of McMillan Binch Mendelsohn 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. 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.

Mr. Kellerman is a partner with the Toronto, Ontario based law firm of Stikeman Elliott LLP. Mr. Kellerman specializes in the area of corporate finance & securities law. Mr. Kellerman, who has been a lawyer for 20 years, received his Bachelor of Laws from the University of Windsor.

### **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 each of the years ended December 31, 2006 and December 31, 2007:

<u>Type of Fees</u>	<u>2006</u>	<u>2007</u>
Audit Fees <sup>(1)</sup>	\$323,564	\$368,844
Audit-Related Fees <sup>(2)</sup>	\$205,698	\$179,244
Tax Fees <sup>(3)</sup>	\$101,950	\$84,315
All Other Fees	Nil	Nil

#### 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.
- (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.

Ernst & Young LLP, who was appointed the Company's external auditor on November 16, 2007, did not bill the Company for any fees for services provided in either of the years ended December 31, 2006 or December 31, 2007.

In connection with its audit of the Company's annual financial statements for the year ended December 31, 2007, 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.

**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, 2007, 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, 2007, 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.