



## **MANAGEMENT DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited Consolidated Financial Statements of Timminco Limited ("Timminco" or the "Company") and the notes thereto for the year ended December 31, 2004 and the unaudited Consolidated Financial Statements of Timminco Limited for the three months ended March 31, 2005, which were prepared in accordance with Canadian generally accepted accounting principles. All amounts are in Canadian dollars unless otherwise noted. The Company is divided into two segments: the Magnesium Products business and the Silicon Metal business. The Silicon Metal business was added when the Company purchased Bécancour Silicon Inc. ("Bécancour Silicon") on September 30, 2004. The information included in this MD&A is as of May 10, 2005.

### **OVERVIEW**

The results of the first quarter continue the trend of improved operating results for Timminco, with the month of March being the best month of the quarter. The refinancing of the Company with Bank of America N.A. was a positive step forward in the evolution of the Company into a growth oriented specialty and light metals company. The weakness of the US dollar continues to depress results, however the Company's own price increases and cost reduction actions have partially offset this factor.

- For the quarter, the net loss was (\$0.4) million or (\$0.01) per share, compared with a loss of (\$1.1) million in the first quarter of 2004 (\$0.03) per share. Sales for the quarter were \$48.3 million compared to \$25.2 million in the first quarter of 2004. Sales in the first quarter of 2005 includes the revenue of the Silicon Metal business of \$26.1 million while in the comparative quarter in 2004 it was not included.
- On April 15, 2005, the Company entered into a new banking agreement with Bank of America N.A. The Agreement replaces the Company's prior banking agreements with its Canadian Bank lenders. The Agreement provides for maximum credit lines of US\$32.8 million in a revolving loan and a US\$5.75 million term loan. The Agreement expires on November 30, 2007 and, at the option of the Company and subject to meeting certain requirements, may be extended to April 30, 2010. The loans are secured by the assets of the Company.
- On May 10, 2005, the Company reached agreement to acquire 726 shares of Fundo Wheels AS ("Fundo") for 5.75 million common shares of Timminco Limited issued from treasury. The acquisition is expected to close by the end of May 2005. With the purchase of the shares, the Company's ownership of Fundo will increase from 24% to 47%.

## QUARTERLY INFORMATION

(000's except per share data)

	Three Months Ended (unaudited)	
	March 31, 2005	March 31, 2004
<b>Sales</b>	<b>\$48,333</b>	<b>\$25,178</b>
<b>Gross profit</b>	<b>5,567</b>	<b>3,495</b>
<b>Gross profit percentage</b>	<b>11.5%</b>	<b>13.9%</b>
<b>Net loss</b>	<b>(428)</b>	<b>(1,105)</b>
<b>Loss per common share, basic and diluted</b>	<b>(0.01)</b>	<b>(0.03)</b>
<b>Working capital (excluding available cash items)</b>	<b>44,444</b>	<b>26,707</b>
<b>Total assets</b>	<b>162,743</b>	<b>91,233</b>
<b>Bank debt</b>	<b>34,973</b>	<b>17,782</b>
<b>Total long term liabilities</b>	<b>20,597</b>	<b>3,462</b>
<b>Weighted average number of common shares outstanding, basic and diluted</b>	<b>69,383</b>	<b>32,114</b>

## RESULTS OF OPERATIONS

For the first quarter ended March 31, 2005, the net loss was \$0.4 million compared with a loss of \$1.1 million in first quarter of 2004. Sales for the first quarter of 2005 were \$48.3 million compared to \$25.2 million in the first quarter of 2004. The results of the first quarter of 2004 do not include Becancour Silicon as it was acquired on September 30, 2004 and its results are included from that date forward.

### Magnesium Products Business

For the quarter ended March 31, 2005, sales of the Magnesium Products business were \$22.2 million, down from \$25.2 million in the first quarter of 2004. Sales volume in tonnes decreased 13.3% compared with the first quarter of 2004, the decrease being spread across several product lines. During 2004, the Company increased the prices on most of its products, however the weakness of the US dollar has offset the benefit of these increases as approximately 86% of the Magnesium Products business's sales are denominated in US dollars.

Gross profit for the first quarter of 2005 was \$2.8 million or 12.5% of sales compared to \$3.5 million or 13.9% of sales in the first quarter 2004. There were a number of factors that resulted in the lower gross margin. During the first quarter of 2005, when compared to the first quarter of 2004, there were a number of efficiency and production variances that reduced margins. The largest such production variance was an equipment failure in one of the Haley plant's furnaces, which cost approximately \$0.5 million. Furthermore, the increase in the price of natural gas has had an adverse impact on margins, which has been partially offset by certain cheaper raw material prices.

Manufacturing overheads decreased \$0.4 million for first quarter of 2005 when compared to the first quarter of 2004. Engineering and research and development expenses were essentially on budget and equal to the first quarter of 2004.

Selling and administrative expenses of \$2.6 million in the current year's quarter were down \$0.1 million from \$2.7 million in the first quarter of 2004. Stock-based compensation expense increased to \$0.1 million from nil in the first quarter of 2005 compared to the first quarter of 2004, offset by a decrease in selling costs.

Amortization of capital assets of \$1.0 million in the first quarter of 2005 was down slightly from \$1.1 million in the first quarter of 2004. There have been no major expansion projects in 2005 and 2004.

## **Silicon Metal Business**

In the Silicon Metal business, sales for the first quarter of 2005 were \$26.1 million compared with \$23.9 million in the first quarter of 2004. Increased sales prices of the segment's silicon metal and silica fume products and a more than 36% increase in sales volume of the segment's 98% silicon metal to the electronics/chlorosilane industry were partially offset by lower sales volumes in the remainder of the segment's products.

For the quarter ended March 31, 2005, the gross margin in the Silicon Metal business was \$2.3 million compared with \$0.8 million in the first quarter of 2004. The higher gross margin was a result of higher selling prices for the Company's products and improved efficiencies in the manufacturing process.

Selling and administrative expenses of \$0.7 million in the first quarter of 2005 increased from \$0.5 million in the first quarter of 2004.

The foreign exchange gain in the first quarter was \$0.2 million compared to a loss of \$0.3 million in the first quarter of 2004. The change was due to increased gains on unexercised foreign exchange contracts. At March 31, 2005, the Silicon Metal business had a gain on unsettled foreign exchange contracts of \$1.6 million.

Amortization of capital assets in the first quarter of 2005 was \$0.6 million, down slightly from \$0.7 in the first quarter of 2004. During the quarter, there were no major expansion projects.

Interest expense in the first quarter of 2005 decreased slightly by \$0.1 million to \$0.3 million when compared to the first quarter of 2004.

### ***Additional Aluminum Products Investment***

On May 10, 2005, Timminco reached agreement to acquire an additional 726 shares of Fundo Wheels AS ("Fundo") in exchange for 5,750,000 common shares of Timminco Limited issued from Treasury. The transaction is expected to close May 31, 2005. Subsequent to the transaction, the Corporation will own 47% of Fundo.

Fundo, located in Hoyanger, Norway, is an original equipment manufacturer of cast aluminum wheels for luxury European car manufacturers.

## **LIQUIDITY AND CAPITAL RESOURCES**

On April 15, 2005, the Company entered into a Credit Agreement (the "BA Agreement") with Bank of America, NA. The BA Agreement provides for maximum credit lines of US\$32.8 million in a revolving loan (the "Revolver") and a US\$5.75 million term loan. The Revolver bears interest at the prime rate plus 0.5% to 1.25% and does not require minimum repayments. The term loan bears interest at the prime rate plus 1.5% to 2.25% and requires quarterly repayments of US\$0.3 million. The BA Agreement expires on November 30, 2007 and, at the option of the Company and subject to meeting certain requirements, may be extended to April 30, 2010. The loans are secured by the assets of the Company.

At the initial funding, the Company borrowed \$37.5 million retiring all the outstanding bank debt with the Company's Canadian banks, repaying the Company's parent \$1.4 million for a note payable and accrued interest, and paying \$0.5 million in transaction expenses. Total fees and expenses for the transaction were \$0.7 million.

As at March 31, 2005, total bank debt was \$35.0 million, compared with \$36.8 million as at December 31, 2004; this includes debt which was acquired when the Company acquired Bécancour Silicon. At March 31, 2005, the Company had additional available drawings under the credit agreements with its banks (the "Credit Agreements") of approximately \$4.1 million against maximum lines of credit of approximately \$39.1 million measured at the exchange rate of Canadian/US 1.21, subject to the banks' consent. As the Company's Credit Agreements expired on March 31, 2005 and May 31, 2005, all of the bank debt was classified as current. In March 2005, the Company's banks extended certain of the Credit Agreements from March 31, 2005 to April 30, 2005. Under the Credit Agreements, the Company is subject to certain covenants, conditions and reporting requirements. At March 31, 2005, the Company was not in compliance

with certain of its covenants specified under the terms of the Credit Agreements. The banks did not demand repayment of the bank debt and the Company completed its refinancing with Bank of America in April 2005.

Canadian dollar borrowings bear interest at the Bank's prime rate plus 0% to 2.5% and US dollar borrowings bear interest at the Bank's base rate plus 0% to 2.5%, the premiums being dependent on meeting certain leverage thresholds and having a range of 0% to 2.5%. Bank debt is secured by all of the assets of the Company and its subsidiaries.

The Company's operations generated cash flows of \$5.7 million in the first quarter of 2005 compared to (\$0.3) million in the first quarter of 2004. The increase is predominantly due to the lower loss and lower working capital.

Accounts receivable at \$24.1 million were consistent with the 2004 year end figure of \$24.5 million. Compared to December 31, 2004, inventories have decreased from \$47.1 million to \$42.8 million at March 31, 2005 due to improved inventory management and lower raw material costs. At March 31, 2005, approximately \$1.0 million of inventory was held under consignment agreements for customers. Prepays have decreased \$1.7 from December 31, 2004 to March 31, 2005 to a balance of \$2.7 million. At December 31, 2004, the Company had \$2.0 million of outstanding exchange contracts recorded under Prepaid Expenses, while as at March 31, 2005, the figure was \$0.4 million.

Accounts payable and accrued liabilities decreased \$2.3 million from December 31, 2004 to March 31, 2005. The decrease was largely related to a general decrease in accounts payable.

**Contractual Obligations as at March 31, 2005 (000's of CAD\$)**

	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
<b>Bank Debt</b>	<b>\$34,973</b>	<b>\$34,973</b>	-	-	-
<b>Operating Leases</b>	<b>\$3,305</b>	<b>\$997</b>	<b>\$1,453</b>	<b>\$855</b>	-
<b>Other Long Term Obligations</b>	<b>\$40</b>	<b>\$40</b>			
<b>Total Contractual Obligations</b>	<b>\$38,318</b>	<b>\$36,010</b>	<b>\$1,453</b>	<b>\$855</b>	

**Foreign Exchange and Foreign Currency Contracts**

On an annualized basis, approximately 86% of the Company's sales are made outside of Canada and are denominated in US dollars or Euros. For reporting purposes all foreign currency sales and expenses are converted to the Canadian Dollar equivalent at the exchange rate applicable at the time of the transaction. While the Company has historically been exposed to swings in commodity prices and foreign exchange rates, and will continue to be exposed to some extent, it is increasingly endeavouring to reduce these risks through hedging or long term contracts. As at March 31, 2005, the Company had outstanding exchange contracts to sell approximately US \$2.5 million over a period of one month at a weighted average exchange rate of \$1.3817. As at March 31, 2005, the Company recorded an unrealized gain of \$1.6 million on these contracts that is included in foreign exchange gain. The unrealized gains are listed under prepaid items on the Balance sheet. The counterparties to the contracts are multinational commercial banks.

**Capital Expenditures**

The Company operates in a capital-intensive manufacturing industry. Capital expenditures are incurred to maintain capacity, comply with safety and environmental regulations, support cost reductions and foster growth. Capital expenditures in the first quarter of 2005 of \$0.5 million were for a variety of maintenance and smaller capital projects. Capital expenditures for 2005 are projected to increase to \$6.0 million due to the addition of the Silicon Metal business, principally to maintain capacity, and support cost reductions. Operating cash flows are forecasted to provide the funding for the future portion of these capital expenditures.

## **RELATED PARTY TRANSACTIONS**

In 2004, the Company's Silicon Metal business obtained a subordinated loan of \$1,407,000 from Safeguard L.P. , ("Safeguard") the Entity that controls Timminco, bearing interest at prime rate plus 1% (5.25% as of March 31, 2005). The loan was outstanding as at March 31, 2005. On April 18, 2005, this note and accrued interest was repaid.

Two of the Company's executives, the VP of Aluminium Products and the EVP of Strategy have duties with a company controlled by Safeguard. This related Entity and the Company share the annual cost of the two executives.

## **RISKS AND UNCERTAINTIES**

There are many financial and operational risks inherent in the business, which include, but are not limited to: commodity prices, currency exchange, interest rate, capital, credit, regulatory, operational and environmental risks. The Company takes specific measures to manage these risks. Although the Company maintains insurance against risks that are typical in the Company's industry, such insurance may not provide adequate coverage under all circumstances. The Company's 2004 annual report and the 2004 Management's Discussion and Analysis contain an expanded discussion of risks which are available at [www.sedar.com](http://www.sedar.com).

## **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Company's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses for the reporting year. Due to the inherent uncertainty involved with making such estimates, actual results reported in future periods could differ from those estimates. The Company's 2004 annual report and the 2004 Management's Discussion and Analysis contain an expanded discussion of critical accounting estimates which are available at [www.sedar.com](http://www.sedar.com).

## **OUTLOOK**

Fiscal 2004 was a very difficult year and a number of changes were implemented to ensure that 2005 has improved results. The Company believes that the first quarter results, although requiring continued improvement, demonstrate the path to better results that the changes undertaken in 2004 were designed to yield. The Company expects sales and margins in both segments to improve, however recent softness in certain of the Company's markets may present a challenge to the Company's ability to meet sales targets. As the majority of sales are denominated in US dollars, reported sales will be affected proportionally with changes in the exchange rate between the Canadian dollar and the US dollar as well as the Euro.

Administrative expenses are expected to decrease as economies are achieved with the closer integration of the two operating segments.

Management of working capital continues to be a focus of management. Reductions of working capital are anticipated to continue at a moderate level in 2005.

## **FORWARD LOOKING STATEMENTS**

Certain statements contained in this MD&A constitute forward looking statements. These forward looking statements relate to the future financial condition, results of operations or business of the Company. These statements may be current expectations and estimates about the markets in which the Company operates and management's beliefs and assumptions regarding these markets. These statements are subject to important risks and uncertainties which are difficult to predict and assumptions which may prove to be inaccurate. The results or events predicted in the forward looking statements contained in this MD&A may differ materially from actual results or events. Some of the factors, which could cause results or events to differ materially from current expectations, are discussed under the section **Risk and Uncertainties** and other cautionary factors are outlined elsewhere in this MD&A. The Company disclaims any intention or obligation to update or revise any forward looking statements, whether as a result of new information, future events or otherwise.

## QUARTERLY FINANCIAL INFORMATION

(000's except per share data)

	Three Months Ended (unaudited)				Year Ended (audited)
	December 31, 2003	December 31, 2004	March 31, 2004	March 31, 2005	December 31, 2004
Sales	\$22,989	\$49,365	\$25,178	\$48,333	\$123,631
Gross margin	3,986	2,671	3,495	5,567	11,333
Net income (loss) before impairment	890	(1,967)	(1,105)	(428)	(6,907)
Impairment	(8,685)	-	-	-	-
Net income (loss)	(7,795)	(1,967)	(1,105)	(428)	(6,907)
Earnings (loss) per common share, basic and diluted	(.25)	(.03)	(.03)	(.01)	(.15)
Total assets	84,610	168,420	91,233	162,743	168,420
Total bank debt	16,927	36,793	17,782	34,973	36,793
Total long term liabilities	14,383	20,319	3,462	20,597	20,319
Weighted average number of common shares outstanding, basic and diluted	30,619	69,383	32,114	69,383	44,662

(000's except per share data)

	Three Months Ended (unaudited)				Year Ended (audited)
	June 30, 2003	June 30, 2004	September 30, 2003	September 30, 2004	December 31, 2003
Sales	\$26,975	\$26,358	\$21,893	\$22,730	\$99,170
Gross margin	5,191	3,504	3,684	1,663	19,780
Net income (loss) before impairment	1,776	(1,496)	(986)	(2,339)	4,909
Impairment	-	-	-	-	(8,685)
Net income (loss)	1,776	(1,496)	(986)	(2,339)	(3,776)
Earnings (loss) per common share, basic and diluted	.06	(.04)	(.03)	(.06)	(.13)
Total assets	93,948	93,334	93,092	167,107	84,610
Total bank debt	18,477	17,726	18,256	39,287	16,927
Total long term liabilities	14,278	3,440	13,754	19,400	14,383
Weighted average number of common shares outstanding, basic and diluted	30,421	38,474	30,619	38,474	29,086

(1) No Dividends were paid during 2003, 2004 or 2005.

## OTHER INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form, is available at [www.sedar.com](http://www.sedar.com).

**Timminco Limited**

**Consolidated Balance Sheets**

	As at <b>March 31</b> <b>2005</b> (unaudited)	December 31 2004
<i>(in thousands of dollars)</i>		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 3,477	\$ 568
Accounts receivable	24,116	24,507
Inventories	42,787	47,147
Prepaid expenses and deposits	2,663	4,409
Deferred cost	158	151
Future income taxes	651	652
	<u>73,852</u>	<u>77,434</u>
<b>Long term receivables</b>	<b>702</b>	724
<b>Capital assets</b>	<b>49,332</b>	50,353
<b>Investment in Fundo Wheels AS</b>	<b>6,550</b>	6,514
<b>Employee future benefits</b>	<b>1,035</b>	1,012
<b>Deferred financing costs</b>	<b>218</b>	161
<b>Future income taxes</b>	<b>6,464</b>	7,714
<b>Goodwill (Note 1)</b>	<b>24,590</b>	24,508
	<u>\$ 162,743</u>	<u>\$ 168,420</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank indebtedness (Note 2)	\$ 9,326	\$ 9,471
Accounts payable and accrued liabilities	23,368	25,704
Current portion of long term bank debt (Note 2)	25,647	27,322
Future income taxes	751	1,971
Current portion of long term provisions	1,812	1,885
	<u>60,904</u>	<u>66,353</u>
<b>Employee future benefits</b>	<b>16,812</b>	16,497
<b>Long term provisions</b>	<b>3,785</b>	3,822
	<u>81,501</u>	<u>86,672</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock (Note 3(b))</b>	<b>79,802</b>	79,802
<b>Warrants</b>	<b>1,393</b>	1,393
<b>Contributed surplus</b>	<b>1,105</b>	1,021
<b>Retained earnings (deficit)</b>	<b>(890)</b>	(462)
<b>Foreign currency translation adjustment</b>	<b>(168)</b>	(6)
	<u>81,242</u>	<u>81,748</u>
	<u>\$ 162,743</u>	<u>\$ 168,420</u>

**Subsequent event (Note 6)**

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

**Timminco Limited****Consolidated Statements of Operations**

(unaudited)

Three months ended March 31	2005	2004
<i>(in thousands of dollars, except for earnings per share information)</i>		
<b>Sales</b>	<b>\$ 48,333</b>	\$ 25,178
<b>Expenses</b>		
Cost of goods sold	<b>42,766</b>	21,683
Selling and administrative	<b>3,151</b>	2,657
Amortization of capital assets	<b>1,532</b>	1,132
Amortization of deferred financing costs	<b>26</b>	27
Interest	<b>716</b>	320
Foreign exchange loss	<b>472</b>	28
Loss before the undernoted	<b>(330)</b>	(669)
Loss on sale of capital assets	<b>(10)</b>	-
Reorganization costs	-	(395)
Other income	<b>27</b>	-
Equity earnings of Fundo Wheels AS	<b>198</b>	-
Loss before income taxes	<b>(115)</b>	(1,064)
Income taxes		
Current	<b>282</b>	41
Future	<b>31</b>	-
	<b>313</b>	41
<b>Net loss</b>	<b>\$ (428)</b>	\$ (1,105)
<b>Loss per common share - basic and diluted</b>	<b>\$ (0.01)</b>	\$ (0.03)
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<b>69,382,614</b>	32,114,182

**Consolidated Statements of Retained Earnings (Deficit)**

(unaudited)

Three months ended March 31	2005	2004
<i>(in thousands of dollars)</i>		
<b>Retained earnings (deficit) at beginning of period</b>	<b>\$ (462)</b>	\$ 6,445
Net loss	<b>(428)</b>	(1,105)
<b>Retained earnings (deficit) at end of period</b>	<b>\$ (890)</b>	\$ 5,340

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

**Timminco Limited****Consolidated Statements of Cash Flows**

(unaudited)

Three months ended March 31	2005	2004
<i>(in thousands of dollars)</i>		
<b>Cash flows from operating activities</b>		
Net loss	\$ (428)	\$ (1,105)
Adjustments for items not requiring cash		
Amortization of capital assets	1,532	1,132
Amortization of deferred financing costs	26	27
Stock based compensation (Note 3(d))	84	8
Reorganization costs	-	395
Net benefits plan expense	640	108
Loss on disposal of capital assets	10	-
Future income taxes	31	-
Equity earnings of Fundo Wheels AS	(198)	-
Expenditures charged against provision for reorganization	(113)	(523)
Expenditures charged against other long term provisions	3	14
	<u>1,587</u>	<u>56</u>
Change in non-cash working capital items		
(Increase) / decrease in accounts receivable	391	(2,635)
Decrease in inventories	4,360	1,809
Decrease in prepaid expenses and deposits	1,739	565
Decrease in accounts payable and accrued liabilities	(2,336)	(134)
	<u>5,741</u>	<u>(339)</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	(521)	(575)
Acquisition of Becancour Silicon Inc. (Note 1)	(82)	-
Investment in Fundo Wheels AS	-	(6,235)
(Increase) / decrease in long term receivables	22	(614)
Defined benefit pension plan contributions	(348)	(156)
	<u>(929)</u>	<u>(7,580)</u>
<b>Cash flows from financing activities</b>		
Increase / (decrease) in bank indebtedness (Note 2)	(145)	1,446
(Decrease) / increase in long term bank debt (Note 2)	(1,675)	(591)
Issuance of capital stock and warrants	-	7,113
Expenditures charged against deferred financing costs	(83)	-
	<u>(1,903)</u>	<u>7,968</u>
<b>Increase in cash</b>	<b>2,909</b>	<b>49</b>
<b>Cash at beginning of period</b>	<b>568</b>	<b>53</b>
<b>Cash at end of period</b>	<b>\$ <u>3,477</u></b>	<b>\$ <u>102</u></b>
Supplemental information		
Cash paid during the period:		
Interest	\$ <u>393</u>	\$ <u>378</u>
Income taxes	\$ <u>122</u>	\$ <u>42</u>

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

**Timminco Limited**  
**Notes to Consolidated Financial Statements**  
**For the quarter ended March 31, 2005**  
**Unaudited**

The notes presented in these interim consolidated financial statements refer to only significant events and transactions since December 31, 2004 and are not fully inclusive of all matters normally disclosed in the Corporation's annual audited financial statements including the disclosures required by Canadian Generally Accepted Accounting Principles ("GAAP"). Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2004. These interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements.

**1. ACQUISITION OF BECANCOUR SILICON**

On September 30, 2004, the Corporation acquired 100 percent of the outstanding shares of Bécancour Silicon Inc. ("Bécancour Silicon") and assumed a promissory note totalling \$9.0 million including accrued interest. Bécancour Silicon is a Québec based producer of high quality chemical and electronics grade silicon metal and specialty ferrosilicon. Bécancour Silicon's products are used globally in the manufacture of many consumer and industrial products including silicone sealants, pigments, cosmetics, semiconductors and fiber optic cables.

Bécancour Silicon was owned indirectly by Safeguard International Fund L.P., the ultimate controlling shareholder of the Corporation.

The aggregate purchase price was approximately \$30.0 million, including acquisition costs of \$1.6 million and was satisfied through the issuance of 30,909,091 common shares issued from treasury valued at \$28.4 million, net of tax. The value was determined using the weighted average of the share price for the two days before and after the transaction announcement. The Corporation has employed independent valuers to value the capital and intangible assets of Bécancour Silicon. In connection with these independent valuers, the Corporation is currently in the process of valuing the assets, and when complete, will adjust the purchase accounting appropriately.

The following table summarizes the preliminary estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The purchase price discrepancy has preliminarily been allocated to future income taxes, goodwill and employee future benefits as noted in the table below.

(000's)	
Current assets	\$ 40,403
Capital assets	10,367
Future income taxes	1,500
Goodwill	24,508
Total assets acquired	76,778
Bank loan	19,519
Current liabilities	10,716
Employee future benefits	16,516
Total liabilities assumed	46,751
Net assets acquired	\$ 30,027

All of Bécancour Silicon's assets are located in Canada.

These estimated fair values at December 31, 2004 differ from the amounts originally estimated in the third quarter 2004 financial statements due to an increase in Employee future benefits liabilities of \$0.5 million, a \$3.2 million adjustment to Future Income Taxes and a \$0.6 million reduction in current liabilities.

None of the Goodwill is anticipated to be deductible for tax purposes.

## 2. BANK DEBT

(a) Bank debt at March 31, 2005 and December 31, 2004 was comprised as follows:

(000's)	March 31, 2005	December 31, 2004
Bank indebtedness	\$ 9,326	\$ 9,471
Current portion of long term bank debt	25,647	27,322
	<u>\$ 34,973</u>	<u>\$ 36,793</u>

(b) On April 15, 2005, the Corporation entered into a Credit Agreement (the "Agreement") with Bank of America, NA. The Agreement provides for maximum credit lines of US\$32.8 million in a revolving loan (the "Revolver") and a US\$5.75 million term loan. The Revolver bears interest at the prime rate plus 0.5% to 1.25% and does not require minimum repayments. The term loan bears interest at the prime rate plus 1.5% to 2.25% and requires quarterly repayments of \$0.3 million. The Agreement expires on November 30, 2007 and, at the option of the Corporation and subject to meeting certain requirements, may be extended to April 30, 2010. The loans are secured by the assets of the Corporation.

At the initial funding, the Corporation borrowed \$37.5 million retiring all the outstanding bank debt with the Corporation's Canadian banks and repaying the Corporation's parent \$1.4 million for a note payable and accrued interest. Fees for the transaction were \$0.7 million.

(c) As the Timminco Limited Credit Agreement expired on March 31, 2005, all of the bank debt is classified as current. In March 2005, the bank extended the Credit Agreement to April 30, 2005. The Credit Agreement requires quarterly principal payments of \$750,000. The last principal payment was made in January 2005 in respect of the quarter ended December 31, 2004. Under the Credit Agreement, the Corporation is subject to certain covenants, conditions and reporting requirements. As at March 31, 2005, the Corporation was not in compliance with certain covenants.

(d) The credit facilities of Bécancour Silicon Inc. expire on May 31, 2005, thus, all of the bank debt is classified as current. The credit agreement requires quarterly principal payments of \$1,000,000. Under the credit agreement, Bécancour is subject to certain covenants, conditions and reporting requirements. As at March 31, 2005, Bécancour was not in compliance with certain covenants.

## 3. CAPITAL STOCK

(a) Authorized: unlimited number of Class A and Class B preference shares, issuable in series and having such rights, privileges, restrictions and conditions as may be approved by the Board of Directors of the Corporation.

Issued: none

- (b) Authorized: unlimited number of common shares. Holders of common shares are entitled to one vote for each share.

Issued capital is:

	Common Shares	
	No. of Shares	Amount
Balance as at December 31, 2004 and March 31, 2005	69,382,614	\$79,802

- (c) The Corporation's shares rank in the priority of Class A and Class B preference shares and then common shares with respect to the payment of dividends and the return of capital.
- (d) A summary of the status of the Corporation's two stock option plans as of March 31, 2005 and 2004, and changes during the periods ending on those dates is presented below:

	2005 Shares (000's)	Weighted Average Exercise Price	2004 Shares (000's)	Weighted Average Exercise Price
Outstanding at January 1	2,145	\$1.11	160	\$2.93
Granted	-	-	2,210	\$0.96
Outstanding at March 31	2,145	\$1.11	2,370	\$1.09

At March 31, 2005, 637,500 options were exercisable at a range of prices from \$0.96 to \$3.20, with a weighted average remaining life of 4.61 years.

The conversion of outstanding stock options has not been included in the determination of earnings per share as to do so would have been anti-dilutive.

#### 4. FINANCIAL INSTRUMENTS

The Corporation has entered into foreign currency contracts to hedge foreign currency risk relating to certain cash flow exposures. The Corporation's forward exchange contracts reduce the Corporation's risk from exchange movements because gains and losses on such contracts offset losses and gains on transactions being hedged. The counterparties to the contracts are multinational commercial banks and therefore credit risk of counterparty non-performance is remote. As at March 31, 2005, the Corporation had outstanding exchange contracts to sell approximately 2.4 million US dollars over a period of one month at a weighted average exchange rate of \$1.3817. For the three months ended March 31, 2005, the Corporation recorded a realized gain of \$1.6 million on foreign exchange contracts. At March 31, 2005, Prepaid Expenses and Deposits includes an unrealized gain of \$0.4 million on these contracts.

The carrying value of current monetary assets and liabilities approximates their fair value due to their relatively short periods to maturity. The fair value of long term debt approximates its carrying amount as the terms and conditions are similar to current market conditions.

#### 5. SEGMENTED INFORMATION

The Company manages its business along two principal business segments, the production and sale of specialty non-ferrous metals, the Magnesium Products business ("Magnesium") and silicon based metals, the Silicon Metal business ("Silicon"). During the first quarter of

2004, all operations were attributed to the Magnesium Products business. Segmented information on sales and identifiable assets by geographic region is as follows:

(a) Sales:

(000's)	Magnesium	Silicon	2005	2004
Canada	\$ 2,749	\$ 2,790	\$ 5,539	\$ 3,320
United States	14,282	14,625	28,907	15,206
Mexico	1,041	-	1,041	1,365
Europe	2,171	8,379	10,550	2,652
Australia	1,182	-	1,182	1,406
Pacific Rim	475	317	792	743
Other	289	33	322	486
	\$ 22,189	\$ 26,144	\$ 48,333	\$ 25,178

(b) Net loss:

(000's)	Magnesium	Silicon	Total
Net income before the following	\$ 128	\$ 2,015	\$ 2,143
Amortization	970	562	1,532
Interest	391	325	716
Loss on disposal of capital assets	10	-	10
Income tax expense	33	280	313
Net loss	\$(1,276)	\$ 848	\$ (428)

(c) Identifiable assets:

(000's)	Magnesium	Silicon	March 31, 2005
Canada	\$ 52,096	\$ 76,487	\$ 128,583
United States and Other	34,160	-	34,160
	\$ 86,256	\$ 76,487	\$ 162,743
(000's)	Magnesium	Silicon	December 31, 2004
Canada	\$ 53,240	\$ 82,127	\$ 135,367
United States and Other	33,053	-	33,053
	\$ 86,293	\$ 82,127	\$ 168,420

(d) Capital assets:

(000's)	March 31, 2005	December 31, 2004
Magnesium	\$ 39,296	\$ 40,043
Silicon	10,036	10,310
	\$ 49,332	\$ 50,353

(e) Additions to Capital assets:

(000's)	2005	2004
Magnesium	\$ 233	\$ 575
Silicon	288	-
	\$ 521	\$ 575

(f) Major customers:

In 2005, one customer accounted for approximately 24% (20% in 2004) of total sales in the Magnesium Products business.

In the Silicon Metal business three customers accounted for 33%, 20% and 12% of total sales respectively.

## **6. SUBSEQUENT EVENT**

On May 10, 2005, Timminco reached agreement to acquire 726 shares of Fundo Wheels AS ("Fundo") in exchange for 5,750,000 common shares of Timminco Limited issued from Treasury. The transaction is expected to close by the end of May 2005. Subsequent to the transaction, the Corporation's ownership interest will increase from 24% to 47% of Fundo.