



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, 2005 and the unaudited Consolidated Financial Statements of Timminco Limited for the three months ended March 31, 2006, 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 Group and the Silicon Group. The commentary included in this MD&A is as of April 28, 2006.

OVERVIEW

The first quarter results were a mix of optimistic events and continued operating challenges resulting in a loss, but demonstrating the benefits of the restructuring actions taken during 2005. During the quarter, the Magnesium business broke even, a significant improvement over the fourth quarter of 2005.

- For the first quarter, the net loss was \$1.9 million or \$0.02 per share, compared with a net loss of \$0.4 million or \$0.01 per share in the first quarter of 2005.
- As at December 31, 2005, the Company's Bank agreed to amend certain covenants within the Company's banking agreement to permit the Company to remain in compliance with its banking agreement as at December 31, 2005 and to relect the Company's operational recovery plan for the fiscal year of 2006. As at March 31, 2006, the Company was in compliance with its banking covenants.
- On March 9, 2006, the Company's controlling shareholder, Safeguard International Fund LP, ("Safeguard"), through an affiliate, made a loan to the Company of US\$2 million to expedite the restructuring of its Magnesium Group and to fund its strategic initiatives including growth in Mexico. The loan is repayable in cash or shares and is subordinate to the Company's bank debt.
- The Company is subject to a United States Department of Commerce scope inquiry to determine whether Timminco's product exported from Canada is covered by anti-dumping orders on magnesium from China and Russia. The Company expects to learn the results of this matter in the third quarter of 2006. No provisions have been made in the accounts related to this matter. Management believes that the inquiry is without merit, however management estimates that an adverse ruling could result in a duty payment by the Company in the range of \$2.8 million to \$3.8 million for the period from September 2005, when the scope review was initiated, to March 31, 2006.
- Sales for the first quarter of 2006 were \$44.9 million compared with \$48.3 million in the first quarter of 2005. The decrease is attributable to unfavourable movements in foreign exchange rates and to temporary operational difficulties in the Silicon business.

RESULTS OF OPERATIONS

Results for the First Quarter

QUARTERLY INFORMATION

(000's except per share data)

	Three Months Ended (unaudited)	
	March 31, 2006	March 31, 2005
Sales	\$44,924	\$48,333
Gross profit	4,164	5,567
Gross profit percentage	9.3%	11.5%
Net loss	(1,871)	(428)
Loss per common share, basic and diluted	(0.02)	(0.01)
Working capital (excluding available cash items)	34,044	44,444
Total assets	151,014	162,743
Bank debt	30,029	34,973
Total long term liabilities	26,682	20,597
Weighted average number of common shares outstanding, basic and diluted	75,132	69,383

For the quarter ended March 31, 2006, the net loss was \$1.9 million compared with a loss of \$0.4 million in the first quarter of 2005. Sales for the first quarter of 2006 were \$44.9 million compared to \$48.3 million in the first quarter of 2005.

Magnesium Group

Sales for the Magnesium Group for the first quarter of 2006 were \$21.9 million compared to \$22.2 million in the first quarter of 2005. The strength of the Canadian dollar had a \$1.4 million dollar unfavourable impact on sales, thus without giving effect to the stronger Canadian dollar, sales increased. Actual tonnes sold increased in the first quarter of 2006 by 7.5% when compared to the first quarter of 2005.

Gross margin in the Magnesium Group was \$3.5 million or 15.9% of sales compared to \$2.8 million or 12.5% of sales in the first quarter of 2005. Lower overhead costs which resulted from the re-organization and lower manufacturing variances, the result of a more favourable operating period, were responsible for the improved margins.

Silicon Group

In the Silicon Group, sales for the first quarter of 2006 were \$23.1 million compared with \$26.1 million in the first quarter of 2005, a decrease of \$3.0 million. In the first quarter, the largest decrease compared to the prior year was in ferrosilicon sales, which decreased \$1.7 million compared to the first quarter of 2005. The strong Canadian dollar had an unfavourable impact on sales of \$1.2 million.

For the quarter ended March 31, 2006, the gross margin in the Silicon Group was \$0.3 million or 1.3% of sales compared with \$2.8 million or 10.7% in the first quarter of 2005. The decrease in gross margin was caused by lower pricing for certain of the Company's products and higher manufacturing costs due to a temporary manufacturing problem.

Amortization of capital assets in the first quarter of 2006 was \$0.6 million, consistent with the first quarter of 2005. During the second quarter of 2006, there will be a furnace relining costing approximately \$1.0 million. The cost of the refit will be amortized over its estimated useful life of 12 months.

Selling and Administration Expenses of the Company

Selling and administration expenses were \$3.0 million for quarter ended March 31, 2006, a decrease of \$0.2 million compared with the same quarter in 2005. The largest item contributing to the decrease was a reduction in selling expenses due to a reduced headcount.

LIQUIDITY AND CAPITAL RESOURCES

On April 15, 2005, the Company 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%, is subject to a borrowing base, 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 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 \$1.0 million.

As at December 31, 2005, the Bank amended the banking agreement to adjust the fixed charge ratio covenant ("FCR covenant") as at December 31, 2005 and for the fiscal year of 2006 to permit the Company to maintain its compliance with the banking covenants. The FCR covenant measures the ratio of adjusted cash flow from net income less capital expenditures and taxes divided by the cashflow related to interest and principal repayments. For the twelve months ended December 31, 2005, the FCR covenant has been amended such that the Company meets the requirements of the agreement. For 2006, the amended banking agreement requires the Company to maintain minimum levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") as defined by the banking agreement and limits the amount of capital expenditures. Both the EBITDA and capital expenditure requirements will be measured at March 31, June 30 and September 30, 2006. For the twelve months ending December 31, 2006, the Company must return to the original FCR covenant of 1.1 to 1. Furthermore, the Bank has amended the banking agreement for 2006 to expand the Company's borrowing base by a maximum of US\$1.3 million through the inclusion of receivables from Australia, Japan and Mexico previously considered ineligible by the Bank. This increase in borrowing base is a temporary relief for a period of one year. As at March 31, 2006, the Company was in compliance with its covenants.

On March 9, 2006, an affiliate of the Company's controlling shareholder, Safeguard, loaned the Company US\$2 million to expedite the restructuring of its magnesium business and to fund its strategic initiatives including growth in Mexico. The loan is repayable on demand, and bears interest at the U.S. prime rate plus 1%. The loan and related security are subordinated to the indebtedness and the security provided by the Company's senior lender, Bank of America, N.A. Under the terms of the loan, Safeguard, through its affiliate, has the option to convert the whole or any part of the outstanding principal amount at any time into common shares of the Company at a conversion rate of CAD\$0.40 per common share.

The Company is subject to a United States Department of Commerce scope inquiry to determine whether Timminco's product exported from Canada is covered by anti-dumping orders on magnesium from China and Russia. The Company expects to learn the results of this matter in the third quarter of 2006. No provisions have been made in the accounts related to this matter. Management believes that the inquiry is without merit, however management estimates that an adverse ruling could result in a duty payment by the Company in the range of \$2.8 million to \$3.8 million for the period from September 2005, when the scope enquiry was initiated, to March 31, 2006. In the event that the Company is subject to an unfavourable ruling, the Company has plans to implement strategies to mitigate the impact including immediate price increases. Such actions would have material impacts on net income, working capital and

cashflow and would likely take a minimum of several months and require significant funds to execute. The Company does not currently have these funds available and would have to secure them. In the event that the Company cannot secure these funds, the Company's ability to operate as a going concern could be called into question.

The Company's operations consumed cash flow of \$2.2 million in the first quarter of 2006 compared to generating operating cash flow of \$5.4 million in the first quarter of 2005. The decrease in operating cashflow was due to an increase in pension contributions (\$0.8 million), increased re-organization spending related to the charge taken in December 2005 (\$0.6 million) and an increase in working capital (\$5.8 million).

Accounts receivable increased \$1.4 million compared to December 2005, predominantly due to higher March sales in Silicon when compared to December. Throughout the quarter, receivables collections were generally within terms and bad debts were minimal. Inventories decreased \$1.0 million when compared to December 31, 2005. The decrease occurred in the Silicon business and was due to expected normal seasonal changes that occur throughout the year. At March 31, 2006, approximately \$1.2 million of inventory was held under consignment agreements for customers.

Accounts payable and accrued liabilities decreased \$1.8 million when compared to December 31, 2005. The reduction came in the Magnesium Group, the payables of which were higher than usual at year end. The decrease in long term provisions of \$0.7 million predominantly related to the payment of severance and related costs that were incurred when the Company re-organized the Magnesium Group in December 2005.

Contractual Obligations as at March 31, 2006 (000's of CAD\$)

	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Bank Debt	\$30,029	\$26,002	\$4,027	-	-
Operating Leases	\$2,455	\$862	\$1,593	-	-
Other Long Term Obligations	\$40	\$40			
Total Contractual Obligations	\$32,524	\$26,904	\$5,620	-	

In addition to the obligations noted above, the Company's bank debt, composed of term debt and a revolving loan, bear interest at prime plus 2.25% and prime plus 1.25%, respectively.

Foreign Exchange and Foreign Currency Contracts

On an annualized basis, approximately 83% of the Company's sales 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, 2006, the Company had outstanding exchange contracts to sell approximately \$31.4 million US dollars over a period of 9 months at a weighted average exchange rate of \$1.1614. As at March 31, 2005, the Company had outstanding exchange contracts to sell approximately \$2.5 million US dollars over a period of one month at a weighted average exchange rate of \$1.3817. 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 2006 of \$0.3 million were for the maintenance of facilities at Haley and Becancour and various other projects. Capital expenditures for 2006 are projected to be \$4.1 million 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

On March 9, 2006, the Company's controlling shareholder, Safeguard Fund. LLP, loaned the Company US\$2 million to expedite the restructuring of its magnesium business and to fund its strategic initiatives including growth in Mexico. The loan is repayable on demand, and bears interest at the U.S. prime rate plus 1%. The loan and related security are subordinated to the indebtedness and the security provided by the Company's senior lender, Bank of America, N.A. Under the terms of the loan, Safeguard, through its affiliate, has the option to convert the whole or any part of the outstanding principal amount at any time into common shares of the Company at a conversion rate of CAD\$0.40 per common share.

CAPITAL STRUCTURE

As at April 28, 2006, 75,132,614 common shares of the Company were outstanding. Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 1,910,000 options remain outstanding at exercise prices ranging from Canadian \$0.59 - \$0.96. If exercised, 1,910,000 common shares of the Company would be issued.

The loan from Safeguard is convertible into 5,690,000 common shares of the Company, measured at an exchange rate 1.1380 Can\$/US\$.

Description	Number of Shares	Book Value
Common shares	75,132,614	\$84,191,000
Common share options	1,910,000	1,377,000
Common shares issuable upon conversion of the note	5,690,000	750,000

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 2005 annual report and the 2005 Management's Discussion and Analysis contain an expanded discussion of risks which are available at www.sedar.com.

US Anti-Dumping Duties

During 2005, U.S. Magnesium LLC ("US Mag"), a Utah based magnesium company, requested the United States Department of Commerce ("DOC") initiate a scope inquiry to determine whether the Company's product exported from Canada is covered by the anti-dumping orders on magnesium from China and Russia. US Mag also requested the DOC initiate a similar review of another unrelated company's exports. In response, the DOC initiated a scope review in September 2005. The Company has filed a response to the inquiry to the DOC. In the event that US Mag is successful with its request, duties may be imposed on the Company. The Company expects to learn the results of this matter in the third quarter of 2006. No provisions have been made in the accounts related to this matter. Management believes that the inquiry is without merit, however management estimates that an adverse ruling could result in a duty payment by the Company in the range of \$2.8 million to \$3.8 million for September 2005, when the scope enquiry was initiated, to March 31, 2006. In the event that the Company is subject to an unfavourable ruling, the Company has plans to implement strategies to cure any non-compliance. Such actions would have material impacts on net income, working capital and cashflow and would likely take a minimum of several months and require significant funds to execute. The Company does not currently have these funds available and would have to secure them. In the event that the Company cannot secure these funds, the Company's ability to operate as a going concern could be called into question.

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. Significant estimates include the following:

Pension Return and Discount Rates

The estimated return and discount rate affect the pension expense and liability. These estimates are made with the assistance of the Company's actuaries to ensure that the estimates are reasonable and consistent with those of other companies in our industry. The estimated return on plan assets is subject to change on an annual basis based on the anticipated returns of the plan assets, the return of equities and fixed income securities held by the plan and the performance of public securities markets. The discount rate is subject to change based on the age and changes in composition of the plan members and long term bond rates. A one percent change in either rate would have a material impact on the pension liability.

Asset Retirement Obligations

The Company's asset retirement obligations involve various estimates of the cost of a variety of activities often many years in the future. The Company engages independent consultants to assist in the estimation of closure and remediation costs. Furthermore, the asset retirement obligation is a discounted balance. Currently the Company discounts the estimated cashflows at 9%. A 1% change in the discount rate will change the obligation by approximately \$0.1 million.

OUTLOOK

The quarter was encouraging in that some of the difficult actions taken in December 2005 have started to yield improved results. Although much more improvement is required, the Magnesium Group has demonstrated that improvement has occurred. The Magnesium Group's challenge throughout the balance of the year is to maintain and accelerate this momentum, improving results significantly from 2005.

For the Silicon Group, the first quarter was difficult, as operating issues, since corrected, had an adverse impact on profitability. With this matter resolved, the Silicon Group will focus on delivering to plan for the remainder of the year, and where possible, recover some of the losses that occurred in the first quarter.

The Company maintains its belief that 2006 will be a demanding operating environment. The Company understands that with the number of key challenges in 2006, management's focus on the operations of the business must be intense and constant. The year represents a crossroads for the Company and significant improvement must occur. Cost reduction, maintaining high quality, providing value added products and superior services and securing access to capital are key to the success of the Company and its ability to remain a going concern.

An adverse ruling in the Department of Commerce scope review would have a material impact on the Company. The cost of duties and the cost of the strategies required to remedy the situation would be material and without sufficient access to capital the Company's ability to operate as a going concern could be called into question.

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, 2004	December 31, 2005	March 31, 2005	March 31, 2006	December 31, 2005
Sales	\$49,365	\$42,756	\$48,333	\$44,924	\$184,348
Gross margin	2,671	3,348	5,567	4,164	17,496
Net income (loss)	(1,967)	(6,572)	(428)	(1,871)	(15,795)
Earnings (loss) per common share, basic and diluted	(.03)	(0.09)	(.01)	(0.02)	(0.22)
Total assets	168,420	154,188	162,743	151,014	154,188
Total bank debt	36,793	31,851	34,973	30,029	31,851
Total long term liabilities	20,319	26,721	20,597	26,682	26,721
Weighted average number of common shares outstanding, basic and diluted	69,383	75,132	69,383	75,132	72,848

(000's except per share data)

	Three Months Ended (unaudited)				Year Ended (audited)
	June 30, 2004	June 30, 2005	September 30, 2004	September 30, 2005	December 31, 2004
Sales	\$26,358	\$47,250	\$22,730	\$46,009	\$123,631
Gross margin	3,504	4,423	1,663	4,158	11,333
Net income (loss)	(1,496)	(2,960)	(2,339)	(5,835)	(6,907)
Earnings (loss) per common share, basic and diluted	(.04)	(.04)	(.06)	(.08)	(.15)
Total assets	93,334	163,797	167,107	155,905	168,420
Total bank debt	17,726	34,256	39,287	32,283	36,793
Total long term liabilities	3,440	26,306	19,400	27,862	20,319
Weighted average number of common shares outstanding, basic and diluted	38,474	71,657	38,474	75,133	44,662

(1) No Dividends were paid during 2004, 2005 or 2006.

OTHER INFORMATION

Additional information relating to the Company, including the Company's Annual Information Form, is available at www.sedar.com.

Timminco Limited

Consolidated Balance Sheets

	March 31 2006 (unaudited)	As at December 31 2005
<i>(in thousands of dollars)</i>		
ASSETS		
Current Assets		
Cash	\$ 418	\$ 2,480
Accounts receivable	23,554	22,157
Inventories	37,154	38,148
Prepaid expenses and deposits	1,973	1,871
Future income taxes	714	713
	<u>63,813</u>	<u>65,369</u>
Long term receivables	278	296
Capital assets	47,322	48,590
Investment in Fundo Wheels AS	10,369	10,584
Employee future benefits	1,821	1,837
Deferred financing costs	711	749
Future income taxes	3,648	3,555
Intangible assets	4,674	4,812
Goodwill	18,378	18,396
	<u>\$ 151,014</u>	<u>\$ 154,188</u>
LIABILITIES		
Current Liabilities		
Bank indebtedness (Note 3)	\$ 24,660	\$ 26,153
Accounts payable and accrued liabilities	25,666	27,470
Due to affiliated company (Note 2)	1,597	-
Current portion of long term bank debt (Note 3)	1,342	1,341
Future income taxes	35	51
Current portion of long term provisions	2,053	2,715
	<u>55,353</u>	<u>57,730</u>
Long term bank debt (Note 3)	4,027	4,357
Employee future benefits	17,135	16,788
Future income taxes	1,717	1,747
Long term provisions	3,803	3,829
	<u>82,035</u>	<u>84,451</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 4)	84,191	84,191
Convertible note (Note 4(b))	750	-
Warrants (Note 4(b))	-	1,393
Contributed surplus (Note 4(b))	2,880	1,362
Deficit	(18,128)	(16,257)
Foreign currency translation adjustment	(714)	(952)
	<u>68,979</u>	<u>69,737</u>
	<u>\$ 151,014</u>	<u>\$ 154,188</u>

The accompanying notes are an integral part of these consolidated financial statements. Please see Note 1 regarding a significant contingency.

Timminco Limited**Consolidated Statements of Operations**

(unaudited)

Three months ended March 31	2006	2005
<i>(in thousands of dollars, except for earnings per share information)</i>		
Sales	\$ 44,924	\$ 48,333
Expenses		
Cost of goods sold	40,760	42,766
Selling and administrative	3,033	3,151
Amortization of capital assets	1,583	1,532
Amortization of intangible assets	138	-
Amortization of deferred financing costs	95	26
Interest (Note 3)	686	716
Foreign exchange (gain) loss	(125)	472
Loss before the undernoted	<u>(1,246)</u>	(330)
Gain (loss) on sale of capital assets	15	(10)
Reorganization costs	(28)	-
Other income	17	27
Equity (loss) earnings of Fundo Wheels AS	<u>(453)</u>	198
Loss before income taxes	<u>(1,695)</u>	(115)
Income taxes		
Current	297	282
Future	<u>(121)</u>	31
	<u>176</u>	<u>313</u>
Net loss	\$ <u>(1,871)</u>	\$ <u>(428)</u>
Loss per common share - basic and diluted	\$ <u>(0.02)</u>	\$ <u>(0.01)</u>
Weighted average number of common shares outstanding - basic and diluted (Note 4 (b))	<u>75,132,614</u>	<u>69,382,614</u>

Consolidated Statements of Deficit

(unaudited)

Three months ended March 31	2006	2005
<i>(in thousands of dollars)</i>		
Deficit at beginning of year	\$ (16,257)	\$ (462)
Net loss	<u>(1,871)</u>	<u>(428)</u>
Deficit at end of quarter	\$ <u>(18,128)</u>	\$ <u>(890)</u>

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 <i>(in thousands of dollars)</i>	2006	2005
Cash flows from operating activities		
Net loss	\$ (1,871)	\$ (428)
Adjustments for items not requiring cash		
Amortization of capital assets	1,583	1,532
Amortization of intangible assets	138	-
Amortization of deferred financing costs	95	26
Stock based compensation (Note 4(d))	125	84
Reorganization costs	28	-
Benefits plan expense	747	640
Loss (gain) on disposal of capital assets	(15)	10
Future income taxes and tax benefit of share issue costs	(122)	31
Equity loss (earnings) of Fundo Wheels AS	453	(198)
Defined benefit pension plan contributions	(1,100)	(348)
Expenditures charged against provision for reorganization	(723)	(113)
Expenditures charged against other long term provisions	7	3
Change in non-cash working capital items		
(Increase) decrease in accounts receivable	(1,397)	391
Decrease in inventories	994	4,360
(Increase) decrease in prepaid expenses and deposits	(102)	1,739
Decrease in accounts payable and accrued liabilities	(1,088)	(2,336)
	<u>(2,248)</u>	<u>5,393</u>
Cash flows from investing activities		
Capital expenditures	(320)	(521)
Acquisition costs for the purchase of Bécancour Silicon Inc.	-	(82)
Decrease in long term receivables	18	22
Proceeds on disposal of capital assets	15	-
Other	5	-
	<u>(282)</u>	<u>(581)</u>
Cash flows from financing activities		
Decrease in bank indebtedness (Note 3)	(1,493)	(145)
Decrease in long term bank debt (Note 3)	(329)	(1,675)
Increase in loan from affiliated company (Note 4(b))	2,347	-
Expenditures charged against deferred financing costs	(57)	(83)
	<u>468</u>	<u>(1,903)</u>
(Decrease) increase in cash	(2,062)	2,909
Cash at beginning of year	2,480	568
Cash at end of quarter	\$ <u>418</u>	\$ <u>3,477</u>
Supplemental information		
Cash paid during the period:		
Interest	\$ <u>676</u>	\$ <u>393</u>
Income taxes	\$ <u>339</u>	\$ <u>122</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, 2006
Unaudited

The notes presented in these interim consolidated financial statements refer to only significant events and transactions since December 31, 2005 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, 2005. These interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements.

1. SIGNIFICANT CONTINGENCY

During 2005, U.S. Magnesium LLC ("US Mag"), a Utah based magnesium company, requested the United States Department of Commerce ("DOC") initiate a scope inquiry to determine whether Timminco's product exported from Canada is covered by the anti-dumping orders on magnesium from China and Russia. US Mag also requested the DOC initiate a similar review of another unrelated company's exports. In response, the DOC initiated a scope review in September 2005. The Corporation has filed a response to the inquiry to the DOC. In the event that US Mag is successful with its request, duties may be imposed on the Corporation. The Corporation expects to learn the results of this matter in the third quarter of 2006. No provisions have been made in the accounts related to this matter. Management believes that the inquiry is without merit, however management estimates that an adverse ruling could result in a duty payment by the Corporation in the range of \$2.8 million to \$3.8 million for the period from September 2005, when the scope review was initiated, to March 2006. In the event that the Corporation is subject to an unfavourable ruling, the Corporation has plans to implement strategies to cure any non-compliance. Such actions would have material impacts on net income, working capital and cashflow and would likely take a minimum of several months and require significant funds to execute. The Corporation does not currently have these funds available and would have to secure them. In the event that the Corporation cannot secure these funds, the Corporation's ability to operate as a going concern could be called into question.

2. RELATED PARTY TRANSACTION

On March 9, 2006, the Corporation's controlling shareholder, Safeguard International Fund LP ("Safeguard"), through an affiliate, loaned the Corporation US\$2 million to expedite the restructuring of its magnesium business and to fund its strategic initiatives including growth in Mexico. The loan is repayable on demand, and bears interest at the U.S. prime rate plus 1%. The loan and related security are subordinate to the indebtedness and the security provided by the Corporation's senior lender, Bank of America, N.A. Under the terms of the loan, Safeguard, through its affiliate, has the option to convert the whole or any part of the outstanding principal amount at any time into common shares of the Corporation at a conversion rate of CAD\$0.40 per common share.

3. BANK DEBT

(a) Bank debt at March 31, 2006 and December 31, 2005 was comprised as follows:

(000's)	March 31, 2006	December 31, 2005
Bank indebtedness	\$ 24,660	\$ 26,153
Current portion of long term bank debt	1,342	1,341
Long term bank debt	4,027	4,357
	\$ 30,029	\$ 31,851

At March 31, 2006, total bank debt denominated in US dollars amounted to US\$25.6 million.

(b) As at December 31, 2005, the Bank amended the banking agreement to adjust the fixed charge ratio covenant ("FCR covenant") as at December 31, 2005 and for the fiscal year of 2006 to permit the Corporation to maintain its compliance with the banking covenants. The FCR covenant measures the ratio of adjusted cash flow from net income less capital expenditures and taxes divided by the cashflow related to interest and principal repayments. For the twelve months ended December 31, 2005, the FCR covenant has been amended such that the Corporation meets the requirements of the agreement. For 2006, the amended banking agreement requires the Corporation to maintain minimum levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") as defined by the banking agreement and limits the amount of capital expenditures. Both the EBITDA and capital expenditure requirements will be measured at March 31, June 30 and September 30, 2006. As at March 31, 2006, the Corporation is in compliance with its covenants. For the twelve months ending December 31, 2006, the Corporation must return to the original FCR covenant of 1.1 to 1. Furthermore, the Bank has amended the banking agreement for 2006 to expand the Corporation's borrowing base by a maximum of US\$1.3 million through the inclusion of receivables from Australia, Japan and

Mexico previously considered ineligible by the Bank. This increase in borrowing base is a temporary relief for a period of one year.

4. 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 (000's)
Balance as at March 31, 2006 and December 31, 2005	75,132,614	\$84,191

During March 2006, the warrants related to the Corporation's private placement, which occurred during March 2004, expired. The balance of \$1.4 million was added to contributed surplus.

On March 9, 2006, the Corporation borrowed US\$2 million from an affiliate of Safeguard, the Corporation's controlling shareholder. The loan may be settled, at the lender's option, in cash or shares at \$0.40 per share, or a combination of cash and shares. The lender's option to settle the debt in shares has been fair valued separately from the debt using the Black-Scholes option pricing model. Accordingly, the transaction was recorded as \$1.6 million as Due to an affiliate in Current liabilities and \$0.8 million as Convertible note in Shareholders' equity. The following assumptions were used to calculate the fair value of the equity component: expected dividend yield of 0%, expected stock volatility of 64%, risk free rate of 4.1% and expected life of 4.1 years. The expected life of the debt coincides with the maturity of the Bank of America agreement including the optional renewal period, to which the debt is subordinate.

- (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, 2006 and 2005, and changes during the periods ending on those dates is presented below:

	2006 Shares (000's)	Weighted Average Exercise Price	2005 Shares (000's)	Weighted Average Exercise Price
Outstanding at January 1 and March 31	1,910	\$0.78	2,145	\$1.11

At March 31, 2006, 955,000 options were exercisable at a price of \$0.96, with a weighted average remaining life of 5 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.

5. FINANCIAL INSTRUMENTS

The Corporation enters 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, 2006, the Corporation had outstanding exchange contracts to sell approximately 31.4 million US dollars over a period of 9 months at a weighted average exchange rate of \$1.1614. For the three months ended March 31, 2006, the Corporation recorded a realized gain of \$0.1 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.

6. SEGMENTED INFORMATION

The Corporation manages its business along two principal business segments, the production and sale of specialty non-ferrous metals, the Magnesium Group ("Magnesium") and silicon based metals, the Silicon Group ("Silicon"). Segmented information on sales and identifiable assets by geographic region is as follows:

(a) Sales:

(000's)	Three months ended March 31					
	Magnesium	Silicon	Total 2006	Magnesium	Silicon	Total 2005
Canada	\$ 3,113	\$ 2,396	\$ 5,509	\$ 2,749	\$ 2,790	\$ 5,539
United States	13,875	9,723	23,598	14,282	14,625	28,907
Mexico	1,247	-	1,247	1,041	-	1,041
Europe	2,009	10,581	12,590	2,171	8,379	10,550
Australia	851	-	851	1,182	-	1,182
Pacific Rim	461	329	790	475	317	792
Other	300	39	339	289	33	322
	\$ 21,856	\$ 23,068	\$ 44,924	\$ 22,189	\$ 26,144	\$ 48,333

(b) Net profit (loss):

(000's)	Three months ended March 31, 2006			
	Magnesium	Silicon	Other	Total
Net income (loss) before the following	\$ 2,079	\$ 90	\$ (896)	\$ 1,273
Amortization	1,017	700	4	1,721
Interest	366	320	-	686
Amortization of deferred financing cost	45	50	-	95
(Gain) loss on disposal of capital assets	(15)	-	-	(15)
Reorganization expense	28	-	-	28
Equity earnings of Fundo Wheels AS	-	-	453	453
Income tax expense (recovery)	525	(349)	-	176
Net profit (loss)	\$ 113	\$ (631)	\$ (1,353)	\$ (1,871)

(000's)	Three months ended March 31, 2005			
	Magnesium	Silicon	Other	Total
Net income (loss) before the following	\$ 1,278	\$ 2,015	\$ (1,322)	\$ 1,971
Amortization	921	562	49	1,532
Interest	294	422	-	716
Amortization of deferred financing cost	26	-	-	26
(Gain) loss on disposal of capital assets	10	-	-	10
Equity earnings of Fundo Wheels AS	-	-	(198)	(198)
Income tax expense	33	280	-	313
Net profit (loss)	\$ (6)	\$ 751	\$ (1,173)	\$ (428)

(c) Identifiable assets:

(000's)	March 31, 2006	
	Magnesium	Silicon
Canada	\$ 42,485	\$ 73,391
United States and Other	35,138	-
	\$ 77,623	\$ 73,391
		\$ 151,014
(000's)	December 31, 2005	
	Magnesium	Silicon
Canada	\$ 44,738	\$ 74,994
United States and Other	34,456	-
	\$ 79,194	\$ 74,994
		\$ 154,188

(d) Capital assets:

(000's)	March 31, 2006	December 31, 2005
Magnesium	\$ 34,913	\$ 35,801
Silicon	12,409	12,789
	<u>\$ 47,322</u>	<u>\$ 48,590</u>

(e) Additions to Capital assets:

(000's)	Three months ended March 31, 2006	Three months ended March 31, 2005
Magnesium	\$ 138	\$ 226
Silicon	182	288
	<u>\$ 320</u>	<u>\$ 514</u>

(f) Major customers:

In 2006, two customers accounted for approximately 25% (24% in 2005) and 8% (12% in 2005) of total sales in the Magnesium Group.

In the Silicon Group three customers accounted for 34%, 28% and 12% (20%, 33% and 12% in 2005) of total sales respectively.