



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, 2006 and the unaudited Consolidated Financial Statements of Timminco Limited for the three months ended March 31, 2007, which were prepared in accordance with Canadian generally accepted accounting principles. All amounts are in Canadian dollars unless otherwise noted. The commentary included in this MD&A is as of April 30, 2007.

OVERVIEW

The Company is divided into two segments: the Magnesium Group and the Silicon Group. On the positive side, the Silicon Group announced that it had entered into two long term contracts to supply solar silicon, a first for the Group. However, the first quarter results reflected operating issues with both the Silicon and Magnesium Group's furnace operations which resulted in lower than anticipated sales volumes and a loss.

FIRST QUARTER HIGHLIGHTS

- On March 15, 2007 and again on April 4, 2007, the Silicon Group announced that it had entered into long term contracts to supply solar silicon, subject to increased production capacity, and in the case of the agreement announced March 15, 2007, the customer's option to purchase additional supply.
- For the first quarter, the net loss was \$3.1 million or \$0.04 per share, compared with a net loss of \$1.9 million or \$0.02 per share in the first quarter of 2006.
- As at March 31, 2007, 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 March 31, 2007 and to reflect the Company's operational recovery plan for the fiscal year of 2007.
- On March 1, 2007, the Company's controlling shareholder, Safeguard International Fund, L.P., ("Safeguard"), through an affiliate, made a loan to the Company of \$4.5 million to expedite product development and to fund its further investment in Fundo Wheels. The loan is repayable in cash or shares and is subordinate to the Company's bank debt.
- Sales for the first quarter of 2007 were \$41.7 million compared with \$44.9 million in the first quarter of 2006. The decrease is attributable to temporary operational difficulties in both businesses.

SUBSEQUENT EVENT HIGHLIGHTS

- On April 30, 2007, the Company completed a bought deal financing announced April 9, 2007 and issued 11,500,000 common shares at a price of \$2.60 per share, resulting in net proceeds of \$28.0 million. Proceeds from the offering will be used primarily to expand the Company's high purity silicon facility at its wholly-owned subsidiary, Becancour Silicon Inc., and for general corporate purposes.
- On April 30, 2007, the Company announced that Safeguard had completed its conversion of the entire principal amount outstanding under the US\$2.0 million convertible promissory note issued March 7, 2006 into 5,601,000 common shares of the Company at a conversion rate of Cdn\$0.40 per common share. In accordance with the terms of the note, the foreign exchange rate used to convert the US dollar note into Canadian dollars was Cdn\$1.1202, being the noon rate of exchange reported by the Bank of Canada on April 26, 2007 (the date on which Safeguard gave its notice of conversion to the Company), resulting in a Canadian dollar principal amount of the note of Cdn\$2,240,400.

RESULTS OF OPERATIONS

Results for the First Quarter

QUARTERLY INFORMATION

(000's except per share data)

	Three Months Ended (unaudited)	
	March 31, 2007	March 31, 2006
Sales	\$41,695	\$44,924
Gross profit	3,047	4,164
Gross profit percentage	7.3%	9.3%
Net loss	(3,119)	(1,871)
Loss per common share, basic and diluted	(0.04)	(0.02)
Working capital (excluding available cash items)	12,594	34,044
Total assets	102,647	151,014
Bank debt	23,115	30,029
Total long term liabilities	22,838	26,682
Weighted average number of common shares outstanding, basic and diluted	75,133	75,133

For the quarter ended March 31, 2007, the net loss was \$3.1 million compared with a loss of \$1.9 million in the first quarter of 2006. Sales for the first quarter of 2007 were \$41.7 million compared to \$44.9 million in the first quarter of 2006.

Magnesium Group

Sales for the Magnesium Group for the first quarter of 2007 were \$18.6 million compared to \$21.9 million in the first quarter of 2006. Sales of anodes, photo engraving slab and certain specialty metals were lower than the same quarter in the prior year. Actual tonnes sold increased in the first quarter of 2007 by 4.2% when compared to the first quarter of 2006.

Gross margin in the Magnesium Group was \$1.1 million or 5.7% of sales compared to \$3.5 million or 15.9% of sales in the first quarter of 2006. Gross margin was impacted by the lower sales revenue and higher manufacturing variances, predominantly related to a furnace issue in Haley and lower operating rates. Overhead expenses were down slightly compared to the first quarter of 2006.

Amortization of property, plant and equipment in the first quarter of 2007 was \$0.1 million, down from \$1.0 million in the first quarter of 2006. The decrease in amortization was caused by the lower level of property, plant and equipment in the Magnesium Group, an outcome of the asset impairment charge of \$31.2 million taken in December 2006.

Silicon Group

In the Silicon Group, sales for the first quarter of 2007 were \$23.1 million compared with \$23.0 million in the first quarter of 2006, an increase of \$0.1 million. In the first quarter, there was a small increase in the sales of silicon metal compared to the first quarter of 2006. Despite the increase, sales were adversely affected by a furnace issue, since resolved, and by a strike at its rail carrier, CN, that reduced the Group's ability to receive and deliver product.

For the quarter ended March 31, 2007, the gross margin in the Silicon Group was \$1.7 million or 7.2% of sales compared with \$0.3 million or 1.4% in the first quarter of 2006. The increase in gross margin is related to higher selling prices for materials, predominantly silicon metal, negotiated for the 2007 fiscal year.

Amortization of property, plant and equipment in the first quarter of 2007 was \$0.6 million, up \$0.1 million from the first quarter of 2006. During 2007, the Silicon business anticipates significantly higher capital expenditures related to the expansion of its production facilities for solar silicon.

Selling and Administration Expenses of the Company

Selling and administration expenses were \$3.2 million for quarter ended March 31, 2007, an increase of \$0.2 million compared with the same quarter in 2006. There was no particular category or single item that contributed to the increase.

Aluminium Products Investments

Fundo Wheels AS ("Fundo"), located in Hoyanger, Norway, is an original equipment manufacturer of cast aluminium wheels for high end European car manufacturers. In March 2007, the Company acquired an additional 453 shares of Fundo from treasury for \$1.8 million. The Community of Hoyanger (the "Community") also invested in Fundo such that the Company's ownership interest in Fundo remained at 47% and the Community continues to own 53%. The acquisition of the interest did not create any purchase discrepancy.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2007, Bank of America, N.A., the Company's senior lender, amended its Credit Agreement so that the Company was in compliance with certain of its financial covenants as at March 31, 2007. Certain of these amendments offer temporary relief and expire December 31, 2007.

On March 1, 2007, the Company borrowed \$4.5 million from an affiliate of Safeguard to expedite product development and to fund its further investment in Fundo Wheels. 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 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 \$0.42 per common share. 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 \$2.8 million as Due to an affiliate in current liabilities and \$1.7 million as Equity component of 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 65%, risk free rate of 3.96% and expected life of 3.2 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.

On April 9, 2007, the Company announced that it had entered into a bought deal financing. Under the financing, the Company issued a total of 10,000,000 common shares at a price of \$2.60 per share, resulting in gross proceeds of \$26,000,000. The Company and the underwriters (the "Underwriters") also agreed to an over-allotment option of 1,500,000 common shares, at a price of \$2.60 per share, which over-allotment option was exercised in full, resulting in total gross proceeds of the offering of \$29,900,000. On April 30, 2007, the financing and the exercise of the over-allotment option were completed resulting in proceeds of \$28.0 million net of transaction fees. Proceeds from the offering will be used primarily to expand the Company's high purity silicon facility at its wholly-owned subsidiary, Becancour Silicon Inc. and for general corporate purposes.

Also on April 30, 2007, the Company announced that Safeguard had completed its conversion of the entire amount outstanding under the US\$2.0 million convertible promissory note issued March 7, 2006 into 5,601,000 common shares of the Company at a conversion rate of Cdn\$0.40 per common share. In accordance with the terms of the note, the foreign exchange rate used to convert the US dollar note into Canadian dollars was Cdn\$1.1202, being the noon rate of exchange reported by the Bank of Canada on

April 26, 2007 (the date on which Safeguard gave notice of conversion to the Company), resulting in a Canadian dollar principal amount of the note of Cdn\$2,240,400.

The Company's operations produced cash flows of \$5.2 million in the first quarter of 2007 compared to consuming cash flows of \$2.3 million in the first quarter of 2006. Lower pension contributions (\$0.5 million) and reduced working capital (\$9.4 million) offset by a higher net loss (\$1.2 million) were responsible for the majority of the improvement.

Accounts receivable decreased \$4.3 million due to lower sales in the first quarter of 2007 when compared to the fourth quarter of 2006. Throughout the quarter, receivables were generally collected within credit terms and bad debts were minimal. Inventories decreased \$5.9 million when compared to December 31, 2006. In the Magnesium Group, inventory management was a key focus and certain stores inventory was included in the fourth quarter 2006 asset impairment. In the Silicon business, inventory decreased due to the timing of raw material shipments that traditionally occur in late spring. At March 31, 2007, approximately \$0.4 million of inventory was held under consignment agreements for customers.

Deferred financing costs decreased \$0.5 million to nil due to the adoption of a new accounting policy as required under Canadian GAAP. Henceforward, transaction costs related to banking agreements will be expensed rather than deferred and amortized.

Accounts payable and accrued liabilities decreased \$3.5 million when compared to December 31, 2006. The decrease is the result of lower sales and more timely payments during March 2007 when compared to December 2006.

Contractual Obligations as at March 31, 2007 (000's of CAD\$)

	Total	Less than 1 Year	1 to 3 Years	4 to 5 Years	After 5 Years
Bank Debt	\$23,115	\$23,115	-	-	-
Operating Leases	\$2,204	\$933	\$1,271	-	-
Due to Affiliates	\$8,349	\$8,349	-	-	-
Other Long Term Obligations	\$232	\$40	\$192	-	-
Total Contractual Obligations	\$33,900	\$32,437	\$1,463	-	-

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, 2007, the Company had outstanding exchange contracts to sell approximately \$21.8 million US dollars and €7.3 million over a period of 6 months at a weighted average exchange rate of \$1.1503 and \$1.5181, respectively. 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. The counterparty to these contracts is a multinational commercial bank.

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 2007 of \$1.8 million were for the maintenance of facilities at Becancour and purchases related to the expansion of production of solar silicon. Capital

expenditures for 2007 are projected to be \$26.6 million principally to increase capacity of solar silicon production. Operating cash flows and the funds raised in April 2007 from the sale of common shares are forecasted to provide the funding for the future portion of these capital expenditures.

RELATED PARTY TRANSACTIONS

On March 1, 2007, the Company and Safeguard, through an affiliate, entered into a promissory note pursuant to which Safeguard loaned \$4.5 million to the Company to expedite product development and to fund its further investment in Fundo Wheels. 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 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 \$0.42 per common share. 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 \$2.8 million as Due to an affiliate in current liabilities and \$1.7 million as Equity component of 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 65%, risk free rate of 3.96% and expected life of 3.2 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.

On April 30, 2007, the Company announced that Safeguard had completed its conversion of the entire principal amount outstanding under the US\$2.0 million convertible promissory note issued March 7, 2006 into 5,601,000 common shares of the Company at a conversion rate of Cdn\$0.40 per common share. In accordance with the terms of the note, the foreign exchange rate used to convert the US dollar note into Canadian dollars was 1.1202, being the noon rate of exchange reported by the Bank of Canada on April 26, 2007 (the date on which Safeguard gave notice of conversion to the Company), resulting in a Canadian dollar principal amount of the note of Cdn\$2,240,400.

CAPITAL STRUCTURE

As at April 30, 2007, 92,368,614 common shares of the Company were outstanding, including 11,500,000 common shares of the Company issued in connection with the public offering of common shares of Timminco that closed on April 30, 2007, and 5,601,000 common shares of the Company issued to Safeguard in connection with the conversion of the entire amount outstanding under the US\$2.0 million convertible promissory note issued March 7, 2006.

Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 4,909,000 options remain outstanding at exercise prices ranging from Canadian \$0.29 - \$0.96. If exercised, 4,909,000 common shares of the Company would be issued.

On August 31, 2006, the Company borrowed US\$3 million from Safeguard. The loan may be settled, at the lender's option, in cash or shares at a conversion rate of \$0.40 per share, or a combination of cash and shares. If the entire principal amount of the loan is settled in shares, 8,646,750 common shares of the Company will be issued (using the foreign exchange rate used to convert the US dollar note into Canadian dollars of 1.1529, being the closing rate of exchange reported by the Bank of Canada on March 31, 2007).

On March 1, 2007, the Company borrowed \$4.5 million from an affiliate of Safeguard. The loan may be settled, at the lender's option, in cash or shares at a conversion rate of \$0.42 per share, or a combination of cash and shares. If the entire principal amount of the loan is settled in shares, 10,714,286 common shares of the Company will be issued.

Description	Number of Shares	Book Value
Common shares	92,368,614	\$114,551,000
Common share options	4,909,000	1,095,000
Common shares issuable upon conversion of notes payable	19,361,036	2,631,000

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. In addition to the items noted below, please see the Company's 2006 annual report and the 2006 Management's Discussion and Analysis which contains an expanded discussion of risks which are available at www.sedar.com.

Execution/Liquidity Risk

The Company has recorded significant losses in 2006 and, in order to finance these losses, borrowed funds from its controlling shareholder. The Company must also refinance its bank debt, which as at March 31, 2007 was \$23.1 million, no later than November 30, 2007.

Customer Concentration

The Company has traditionally had several large customers, the loss of any of which would have a material impact on the Company's operation. In 2006, three customers accounted for 15%, 12% and 11% of the total sales of the Company, respectively. No other single customer accounts for more than 10% of sales.

Foreign Exchange

The majority of the Company's products are priced in U.S. dollars and European Euros. Consequently, the Company's earnings and cash flows are sensitive to changes in exchange rates. In the absence of hedging, the Company estimates that a 1% change in the US/Canada exchange rate would have a \$500,000 impact on earnings before interest and taxes. The Company has entered into foreign currency contracts to hedge foreign currency risk relating to certain cash flow exposures. The Company's forward exchange contracts reduce the Company's risk from exchange movements because gains and losses on such contracts offset losses and gains on transactions being hedged. The counterparty to the contracts is a multinational commercial bank.

Interest Rates

All of the Company's bank debt bears interest denominated at floating interest rates. As such, increases in the prime rate affect the Company's interest expense adversely.

Energy Prices

The Company's operations are energy intensive. In 2006, the Company continued to focus on reducing energy requirements as well as managing energy procurement and providing operating alternatives for periods of price fluctuations. The Company addresses its supply of energy with attention to price, risk and security of supply. In the future, it is expected that energy costs will continue to be a major expense. Electricity and natural gas prices are expected to remain volatile and bias upward in cost.

Environment

The Company is committed to the principles of an effective environment, safety and health management system. At December 31, 2006, the Company had accrued \$2.3 million for future site restoration and closure costs. In view of the uncertainties concerning future removal and site restorations costs on Company properties, the ultimate costs to the Company could differ from the amounts estimated. The estimate for this future liability is subject to change based on amendments to applicable laws and legislation, the nature of ongoing operations, the timing of future closures and technological innovations. Future changes, if any, due to their nature and unpredictability, would have a significant impact and would be reflected prospectively as a change in an accounting estimate.

Magnesium Prices and Competition

The market price of magnesium has a significant impact on cash flows and earnings. In the past few years, foreign competition from China has greatly affected the price of magnesium. As a result, the Company has revised its sales strategy away from commodity magnesium products into magnesium fabricated products where it has competitive advantage, and margins are generally more stable. The Company purchases a majority of its magnesium feedstock and, as such, will be subject to pricing cycles dictated by overall supply and demand for magnesium metal. The Company has contracted for the majority of its magnesium supply for 2007 to reduce its exposure to swings in the commodity price of magnesium. The Company purchases magnesium in U.S. dollars, but is subject to pricing adjustments to its purchases based on the exchange rate between the US dollar and the Chinese Renminbi for a portion of its magnesium purchases.

Silicon Prices and Competition

The Company's silicon business is involved in the sale of commodities: ferrosilicon and silicon metal. Revenues, earnings and cash flows from the sale of these products are sensitive to changes in market prices, over which the Company has little or no control. The Company reduces the business cycle risks inherent in its commodity operations through industry diversifications. Price risks associated with these commodities may be material to the Company's overall financial position, results of operations and liquidity. In order to manage price volatility related to these products, the Company enters into contractual arrangements to fix the prices for fixed periods, generally a calendar year, where possible.

With respect to the solar silicon products produced by the silicon business, the Company has entered into two five-year contracts that fix the selling price of solar silicon for these two customers. As the Company expands its solar silicon capacity it will enter into price negotiations with additional prospective buyers, which will reflect the market price of solar silicon at that point in time. There is a risk that the price of solar silicon will decline as more capacity is built by the Company and its competitors, and this price decline on incremental volumes may be material to the Company's overall financial position, results of operations and liquidity.

Coal Prices

The market price of coal is one of the most significant factors influencing cash flows and earnings of the Company. Coal is used by the Company's silicon business to produce silicon. In the past few years, foreign competition for the purchase of coal has greatly increased the price. The ability of the Company to recover the coal price increases from its customers through higher prices or negotiate lower purchase prices will be key to maintaining margins. The Company purchases coal in U.S. dollars to help offset the total exposure of the Company to U.S. dollars.

Expansion of Becancour Silicon Inc. Production Facilities

BSI is proceeding with an expansion of its production facilities to raise its capacity to produce solar grade silicon, from 300 metric tons per year to 3,600 metric tons per year, in order to meet the demand of its current customers and other identified prospects. This expansion introduces a number of additional risks to the business including potential delays in construction and commissioning of equipment; technology risk related to the scaling up of the capacity from 300 metric tons to 3,600 metric tons per year; delivery risk related to the ability of customers to take contracted volumes in the expected timeframes; and price risk related to the potential for the market price for solar silicon not being maintained at current levels due to increased competition or supply.

Policies and Procedures

The Company maintains procedures, which are designed to ensure compliance with its internal policies. The Company's business is expanding and it is in the process of re-evaluating its internal policies and procedures including its disclosure and trading, conflict of interest, and authorization levels policies. No assurance can be given that the Company's implementation of these policies and procedures will ensure that they have been complied with and the failure to comply with such policies could have a material adverse affect on the Company's activities.

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 cash flows at 9%. A 1% change in the discount rate will change the obligation by approximately \$0.1 million.

ADOPTION OF ACCOUNTING STANDARDS

On January 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook: Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3865, *Hedges*. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income, but that are excluded from net income calculated in accordance with generally accepted accounting principles. The adoption of these standards resulted in a charge of \$0.5 million to retained earnings to expense deferred financing costs previously being expensed over the life of the banking agreement. Below please find a description of the impact of the new recommendations:

Comprehensive Income

The Company's comprehensive loss is composed of net loss and other comprehensive loss ("OCL"). OCL includes the deferred loss on the foreign exchange forward contracts (see discussion under "Hedges" below) and their reclassification in the statements of operations during the period, as well as the foreign currency loss on the Company's investment in Fundo Wheels AS.

Equity

Accumulated other comprehensive income ("AOCI") is included on the consolidated balance sheet as a separate component of shareholders' equity.

Hedges

Section 3865 of the CICA Handbook specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value

hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the hedging relationship ceases to be effective, when the hedging item or hedged item ceases to exist and when the entity terminates its designation of the hedging relationship. The Company does not have any forward contracts accounted for as hedges as at March 31, 2007. As at December 31, 2006, the Company accounted for its forward currency contacts using hedge accounting under Accounting Guideline 13 ("AcG 13"). As at January 1, 2007, the Company discontinued accounting for forward contracts under AcG 13. The deferred loss on the hedging item as at January 1, 2007 was transferred to accumulated other comprehensive loss and reclassified to the statement of operations when the hedged item affected the statement of operations in the period. Future changes in fair value (subsequent to January 1, 2007) of the Company's forward contracts will be recorded in foreign exchange gain/loss on the statement of operations and the forward contracts will be recorded at fair value as a prepaid item. As at March 31, 2007, the fair value loss on currency forward contracts was \$0.3 million.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company has established and maintains disclosure controls and procedures and internal controls over financial reporting. The certifying officers have evaluated the effectiveness of the issuer's disclosure controls and procedures as of March 31, 2007, and have concluded that such controls and procedures are adequate and effective to ensure accurate and complete disclosures in annual and interim filings. To the date of this interim MD&A, there have not been any changes that materially affect, or are likely to affect, the issuer's internal controls over financial reporting.

OUTLOOK

After a difficult 2006, the first quarter was a mix of strategic progress and operational issues. On the positive side, the development and continued commercialization of solar silicon was very encouraging. Operationally, both Groups had furnace issues, since remedied, in the first quarter. The Magnesium Group took a significant impairment in 2006 and with that event behind them, must strive to continue with cost reductions and improve revenues. During 2007, the Magnesium Group will continue to transform the business to reduce cost while maintaining strong customer service. The Magnesium Group's challenge throughout the balance of the year is to maintain and accelerate this momentum, improving results significantly from 2006.

For the Silicon Group, the first quarter was difficult, as operating issues, since corrected, and a rail strike, had an adverse impact on sales and profitability. This is a very important year for Silicon. Pricing in their base silicon metal business is strong and solar silicon represents a potential opportunity to yield significant revenue and profit increases. During April 2007, the Company raised new equity to support the growth of the solar silicon business. The challenge for the Group will be to manage existing opportunities and at the same time oversee the building of additional capacity - a challenge that they look forward to with great energy and enthusiasm.

The Company believes that 2007 will pose many challenges but with significant opportunities to grow revenues and profits. 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.

FORWARD LOOKING STATEMENTS

This MD&A, including the documents incorporated by reference herein, contains forward-looking statements relating to, but not limited to, the Company's expectations, intentions, plans and beliefs. Forward-looking information can often be identified by forward-looking words such as "anticipate", "believe", "expect", "goal", "plan", "intend", "estimate", "may" and "will" or similar words suggesting future outcomes or other expectations, beliefs, plans, objectives, assumptions, intentions or statements about future events or performance. These statements reflect management's current belief and are based on information currently available to the Company's management and are subject to certain risks, uncertainties and assumptions. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons and no assurances can be given as to actual future results, performance or prospects. Factors that may cause such differences include, but are not limited to, a lack of product revenues and a history of losses; the need for additional financing; uncertainty as to commercial viability; the volume and value of sale contracts of the Company's

businesses and the ability to deliver under such contracts; future pricing of the Company's products; uncertainty as to product development; uncertainty as to the market for the Company's products and unproved acceptance of the Company's technology; competition; uncertainty as to target markets; dependence upon third parties; changes in environmental policies; uncertainty as to patent and proprietary rights; uncertainty as to foreign currency exchange; availability of management and key personnel; and available regulatory approvals. More detailed information about these and other factors is included in the short form prospectus in the section entitled "Risk Factors" and elsewhere herein, in documents incorporated by reference and in other disclosure materials filed from time to time by the Company with Canadian securities regulatory authorities. The Company is not obligated to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Because of the risks, uncertainties and assumptions, you should not place undue emphasis on forward-looking statements.

QUARTERLY FINANCIAL INFORMATION

(000's except per share data)

	Three Months Ended (unaudited)				Year Ended (audited)
	December 31, 2005	December 31, 2006	March 31, 2006	March 31, 2007	December 31, 2006
Sales	\$42,756	46,036	\$44,924	\$41,695	176,238
Gross margin	3,348	1,693	4,164	3,047	12,492
Net income (loss)	(6,572)	(38,733)	(1,871)	(3,119)	(46,233)
Earnings (loss) per common share, basic and diluted	(0.09)	(0.53)	(0.02)	(0.04)	(0.62)
Total assets	154,188	113,002	151,014	102,647	113,002
Total bank debt	31,851	30,598	30,029	23,115	30,598
Total long term liabilities	26,721	22,754	26,682	22,838	22,754
Weighted average number of common shares outstanding, basic and diluted	75,132	75,133	75,132	75,133	75,133

(000's except per share data)

	Three Months Ended (unaudited)				Year Ended (audited)
	June 30, 2005	June 30, 2006	September 30, 2005	September 30, 2006	December 31, 2005
Sales	\$47,250	\$41,213	\$46,009	\$44,065	184,348
Gross margin	4,423	2,516	4,158	4,119	17,496
Net income (loss)	(2,960)	(2,524)	(5,835)	(3,105)	(15,795)
Earnings (loss) per common share, basic and diluted	(.04)	(.03)	(.08)	(.04)	(0.22)
Total assets	163,797	149,127	155,905	149,760	154,188
Total bank debt	34,256	29,268	32,283	33,268	31,851
Total long term liabilities	26,306	26,744	27,862	23,282	26,721
Weighted average number of common shares outstanding, basic and diluted	71,657	75,133	75,133	75,133	72,848

(1) No Dividends were paid during 2005, 2006 or 2007.

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 2007 (unaudited)	As at December 31 2006
<i>(in thousands of dollars)</i>		
ASSETS		
Current Assets		
Cash	\$ 201	\$ 804
Accounts receivable	15,539	19,834
Inventories	27,889	33,830
Prepaid expenses and deposits	1,177	2,160
Future income taxes	225	225
	<u>45,031</u>	<u>56,853</u>
Long term receivables	130	135
Property, plant and equipment	18,699	18,280
Investment in Fundo Wheels AS	10,812	9,173
Employee future benefits	2,078	2,034
Deferred financing costs	-	526
Future income taxes	3,465	3,431
Intangible assets	4,124	4,262
Goodwill	18,308	18,308
	<u>\$ 102,647</u>	<u>\$ 113,002</u>
LIABILITIES		
Current Liabilities		
Bank indebtedness (Note 5)	\$ 19,137	\$ 26,243
Accounts payable and accrued liabilities	21,609	25,062
Current portion of long term bank debt (Note 5)	3,978	4,355
Due to affiliated companies (Note 4 and 6)	8,349	5,497
Future income taxes	63	-
Current portion of long term provisions	2,215	2,863
	<u>55,351</u>	<u>64,020</u>
Loan - other	192	202
Employee future benefits	17,670	17,508
Future income taxes	1,295	1,324
Long term provisions	3,681	3,720
	<u>78,189</u>	<u>86,774</u>
SHAREHOLDERS' EQUITY		
Capital stock (Note 6)	84,191	84,191
Equity Component of convertible note (Note 4 and 6)	3,381	1,693
Contributed surplus	3,306	3,192
Deficit	(66,050)	(62,490)
Accumulated other comprehensive loss (Note 2 and 9)	(370)	(358)
	<u>24,458</u>	<u>26,228</u>
	<u>\$ 102,647</u>	<u>\$ 113,002</u>

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

On behalf of the Board:

(signed) John P. Walsh

President, CEO & Director

(signed) Richard L. Lister

Chairman of the Audit Committee

Timminco Limited

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(unaudited)

Three months ended March 31	2007	2006
<i>(in thousands of dollars, except for earnings per share information)</i>		
Sales	\$ 41,695	\$ 44,924
Expenses		
Cost of goods sold	38,648	40,760
Selling and administrative	3,159	3,016
Amortization of property, plant and equipment	660	1,583
Amortization of intangible assets	138	138
Amortization of deferred financing costs	-	95
Interest	931	686
Foreign exchange (gain) loss	1,041	(125)
Loss before the undernoted	<u>(2,882)</u>	<u>(1,229)</u>
Gain on sale of property, plant and equipment	75	15
Reorganization costs	(8)	(28)
Equity loss of Fundo Wheels AS	(172)	(453)
Loss before income taxes	<u>(2,987)</u>	<u>(1,695)</u>
Income taxes		
Current	80	297
Future	52	(121)
	<u>132</u>	<u>176</u>
Net loss	\$ <u>(3,119)</u>	\$ <u>(1,871)</u>
Other Comprehensive Income/(Loss), net of income taxes		
Loss on foreign exchange forwards realized in the period	1,086	-
Unrealized loss on translating financial statement of self-sustaining foreign operation - Fundo Wheels AS (Note 2)	(12)	238
Comprehensive Loss	<u>(2,045)</u>	<u>(1,633)</u>
Loss per common share - basic and diluted	\$ <u>(0.04)</u>	\$ <u>(0.02)</u>
Weighted average number of common shares outstanding - basic and diluted (Note 6 (b))	<u>75,132,614</u>	<u>75,132,614</u>

Consolidated Statements of Deficit

Three months ended March 31	2007	2006
<i>(in thousands of Canadian dollars)</i>		
Deficit at beginning of quarter	\$ (62,490)	\$ (16,257)
Net loss	(3,119)	(1,871)
Adjustment for changes in accounting policy (Note 2)	(441)	-
Deficit at end of quarter	\$ <u>(66,050)</u>	\$ <u>(18,128)</u>

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

Timminco Limited

Consolidated Statements of Cash Flows
(unaudited)

Three months ended March 31 <i>(in thousands of dollars)</i>	2007	2006
Cash flows from operating activities		
Net loss	\$ (3,119)	\$ (1,871)
Adjustments for items not requiring cash		
Amortization of property, plant and equipment	660	1,583
Amortization of intangible assets	138	138
Amortization of deferred financing costs	-	95
Stock based compensation	114	125
Reorganization costs	8	28
Environmental remediation costs	(19)	(4)
Benefits plan expense	740	747
Gain on disposal of property, plant and equipment	(75)	(15)
Future income taxes	85	(122)
Equity loss of Fundo Wheels AS	172	453
Defined benefit pension plan contributions	(622)	(1,100)
Expenditures charged against provision for reorganization	(677)	(723)
Change in non-cash working capital items		
Decrease (increase) in accounts receivable	4,295	(1,397)
Decrease in inventories	5,941	994
Decrease (increase) in prepaid expenses and deposits	983	(102)
Decrease in accounts payable and accrued liabilities	(3,453)	(1,088)
	<u>5,171</u>	<u>(2,259)</u>
Cash flows from investing activities		
Capital expenditures	(1,792)	(320)
Investment in Fundo Wheels AS (Note 3 and 4)	(1,823)	-
Decrease in long term receivables	5	18
Proceeds on disposal of property, plant and equipment	807	15
Other	(18)	16
	<u>(2,821)</u>	<u>(271)</u>
Cash flows from financing activities		
Decrease in bank indebtedness	(7,106)	(1,493)
Decrease in long term bank debt	(387)	(329)
Increase in loans from affiliated companies	4,540	2,347
Expenditures charged against deferred financing costs	-	(57)
	<u>(2,953)</u>	<u>468</u>
Decrease in cash	(603)	(2,062)
Cash at beginning of period	804	2,480
Cash at end of period	\$ <u>201</u>	\$ <u>418</u>
Supplemental information		
Cash paid during the period:		
Interest	\$ <u>715</u>	\$ <u>676</u>
Income taxes	\$ <u>122</u>	\$ <u>339</u>

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

Timminco Limited
Notes to the Interim Consolidated Financial Statements
For the quarter ended March 31, 2007 and 2006
Unaudited

The notes presented in these interim consolidated financial statements refer to only significant events and transactions since December 31, 2006 and are not fully inclusive of all matters normally disclosed in the Company'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, 2006.

1. NATURE OF OPERATIONS

Timminco Limited (the "Company" or "Timminco") is a global supplier of specialty and light metals, whose customized magnesium, aluminium, calcium, silicon and strontium products are used in a broad range of industries. The Company manages its business along two principal business segments, the production and sale of specialty non-ferrous metals, the Magnesium Group, and silicon based metals, the Silicon Group. During the quarter, the Company's controlling shareholder, Safeguard International Fund, L.P. ("Safeguard") transferred its common shares of the Company to AMG Advanced Metallurgical Group, NV ("AMG"). Safeguard is the controlling shareholder of AMG.

2. CHANGE IN ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared using the same accounting policies and methods as were used for the consolidated financial statements for the year ended December 31, 2006, except for the following new accounting pronouncements which have been adopted effective January 1, 2007:

On January 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook: Section 1530, *Comprehensive Income*, Section 3251, *Equity*, Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3865, *Hedges*. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income, but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of the following five categories: held-for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included in the consolidated balance sheet and are measured at fair value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held-for-trading investments are measured at fair value and all gains and losses are included in net income in the period in which they arise. Available-for-sale financial assets are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is derecognized or impaired. As a result of the adoption of these new standards, the Company has classified its cash as held-for-trading. Receivables are classified as loans and receivables. Foreign forward exchange contracts, included in prepaid expenses and deposits, are classified as held-for-trading. The Company's investment in Fundo Wheels AS is accounted for under the equity method. Unrealized gains and losses from the translation into Canadian dollars of this equity investment are now presented as a separate component of other comprehensive income (loss). In accordance with Section 3251, accumulated other comprehensive income (loss) is presented as a separate component of shareholders' equity in the Consolidated Balance Sheets. Previously, these gains and losses were deferred and included in the foreign currency translation adjustment as part of shareholders' equity. Accounts payable and accruals and short-term debt, including interest payable, are classified as other financial liabilities. The principal changes in the accounting for financial instruments and hedging relationships due to the adoption of these accounting standards are described below.

Comprehensive Income

The Company's comprehensive loss is composed of net loss and other comprehensive loss ("OCL"). OCL includes the deferred loss on the foreign exchange forward contracts (see discussion under "Hedges" below) and their reclassification in the statements of operations during the period, as well as the foreign currency loss on the Company's investment in Fundo Wheels AS.

Equity

Accumulated other comprehensive income ("AOCI") is included on the consolidated balance sheet as a separate component of shareholders' equity.

Derivatives

Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. Non-financial derivatives are carried at fair value unless exempted from derivative treatment as a normal purchase and sale. The Company has reviewed all significant contractual arrangements and determined there are no material non-financial derivatives that need to be carried at fair value.

Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free standing derivative; and the combined instrument or contract is not measured at fair value, with changes in fair value recognized in interest and other expenses, net. These embedded derivatives are measured at fair value with changes therein recognized in interest and other expenses, net. The Company selected January 1, 2003 as the transition date for embedded derivatives, as such only contracts or financial instruments entered into or modified after the transition date were examined for embedded derivatives. As at March 31, 2007, the Company does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation. The Company has chosen, as a matter of accounting policy, not to account for embedded foreign currency derivatives in host contracts that are not financial instruments separately from the host contracts when the currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment is that currency in which the transaction takes place.

Transaction costs

Transaction costs directly attributable to the issuance of long-term debt are now expensed. Previously, these amounts were deferred and amortized using the straight line method over the term of the debt. During the first quarter, \$0.4 million of transaction costs were recognized as an adjustment of the balance of retained earnings at the beginning of the period due to the adoption of this accounting policy.

Determination of fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Hedges

Section 3865 of the CICA Handbook specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies: fair value hedges and cash flow hedges. Hedge accounting is discontinued prospectively when the hedging relationship ceases to be effective, when the hedging item or hedged item ceases to exist and when the entity terminates its designation of the hedging relationship. The Company does not have any forward contracts accounted for as hedges as at March 31, 2007. As at December 31, 2006, the Company accounted for its forward currency contracts using hedge accounting under Accounting Guideline 13 ("AcG 13"). As at January 1, 2007, the Company discontinued accounting for forward contracts under AcG 13. The deferred loss on the hedging item as at January 1, 2007 was transferred to accumulated other comprehensive loss and reclassified to the statement of operations when the hedged item affected the statement of operations in the period. Future changes in fair value (subsequent to January 1, 2007) of the Company's forward contracts will be recorded in foreign exchange gain/loss on the statement of operations and the forward contracts will be recorded at fair value as a prepaid item. As at March 31, 2007, the fair value loss on currency forward contracts was \$0.3 million.

Transitional adjustment

Adoption of these standards was on a prospective basis without retroactive restatement of prior periods, except for the restatement of equity balances to reflect the reclassification of "Foreign currency translation adjustments" to "Accumulated other comprehensive income".

3. INVESTMENT IN FUNDO WHEELS AS

Fundo Wheels AS ("Fundo"), located in Hoyanger, Norway, is an original equipment manufacturer of cast aluminium wheels for high end European car manufacturers. On March 22, 2004 the Company indirectly acquired a 24.4% interest in Fundo Wheels AS ("Fundo"), for \$6,276,000.

To complete the acquisition, Timminco acquired 100% of the shares of a Norwegian Company, Nor-Wheels AS ("Nor-Wheels"), which held 24.4% of the shares of Fundo. Nor-Wheels has become a subsidiary of Timminco and has assumed the Company's rights and obligations under the Call Option and Fees Agreement and other existing agreements with the controlling shareholder of Fundo, which is the Community of Hoyanger (the "Community"). Under these agreements, Nor-Wheels holds a call option to purchase the Community's Fundo shares no sooner than January 1, 2008, on the satisfaction of certain conditions. As at March 31, 2007, the Community owns approximately 53% of Fundo. Beginning January 1, 2008, the Community may exercise a put option requiring Nor-Wheels to purchase the Community's shares, at book value determined on the date of exercise. The Company accounts for the Fundo investment under the equity method. The acquisition of the equity interest did not create any purchase discrepancy.

On May 25, 2005, the Company acquired an additional 726 shares of Fundo from an unrelated third party. The purchase price was satisfied by the issuance of 5,750,000 common shares of the Company from treasury, valued at \$4,393,000. The value was determined using the weighted average share price for the two days before and after the transaction announcement. The acquisition of the equity interest did not create any purchase discrepancy. As a result of the transaction, the Company's ownership interest increased from 24.4% to 47% of Fundo.

In December 2006, the Company acquired an additional 264 shares of Fundo from treasury for \$1,058,000. The Community also invested in Fundo such that the Company's ownership interest remained at 47%. The acquisition of the interest did not create any purchase discrepancy.

In March 2007, the Company acquired an additional 453 shares of Fundo from treasury for \$1,823,000. The Community also invested in Fundo such that the Company's ownership interest remained at 47%. The acquisition of the interest did not create any purchase discrepancy.

4. RELATED PARTY TRANSACTION

In March 2007, the Company and Safeguard, through an affiliate, entered into a promissory note pursuant to which Safeguard loaned \$4.5 million to the Company to expedite product development and to fund its further investment in Fundo Wheels. 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 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 \$0.42 per common share.

5. BANK DEBT

- (a) Bank debt at March 31, 2007 and December 31, 2006 was comprised as follows:

(000's)	March 31, 2007	December 31, 2006
Bank indebtedness	\$ 19,137	\$ 26,243
Current portion of long term bank debt	3,978	4,355
	<u>\$23,115</u>	<u>\$ 30,598</u>

At March 31, 2007, total bank debt denominated in US dollars amounted to US\$20.5 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 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 cash flow related to interest and principal repayments. For the twelve months ended December 31, 2005, the FCR covenant was

amended such that the Company met the requirements of the agreement. As at March 31, 2006, the Company was in compliance with its banking covenants. As at June 30, 2006, the Bank further amended the banking agreement requiring the Company to maintain minimum levels of earnings before interest, taxes, depreciation and amortization ("EBITDA") as defined by the banking agreement and limiting the amount of capital expenditures. Both the EBITDA and capital expenditure requirements were to be measured at June 30, September 30 and December 31, 2006. As at December 31, 2006, the Bank amended the covenants such that the Company was in compliance. The Bank also amended the covenants for fiscal 2007. For the first three quarters of 2007, the Company must meet certain EBITDA levels and submit to limits on capital spending. The revised covenants for 2007 were based on the Company's 2007 budget. 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 into the borrowing base formula. These receivables were previously considered ineligible by the Bank. This increase in borrowing base is a temporary relief expiring on November 30, 2007. As at March 31, 2007, the Bank amended the Agreement such that the Company was in compliance with certain of its financial covenants as at March 31, 2007. Certain of these amendments offer temporary relief and expire December 31, 2007.

6. 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 Company.

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, 2007 and December 31, 2006	75,132,614	\$84,191

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

On March 7, 2006, the Company borrowed US\$2 million from an affiliate of Safeguard, the Company'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 Equity component of 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. On April 30, 2007, the entire principal amount of the loan was settled by the issuance of 5,601,000 common shares of the Company.

On September 5, 2006, the Company borrowed US\$3 million from Safeguard, the Company'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 \$2.4 million as Due to an affiliate in current liabilities and \$0.9 million as Equity component of 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 63%, risk free rate of 4.0% and expected life of 3.6 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.

On March 1, 2007, the Company borrowed \$4.5 million from an affiliate of Safeguard to expedite product development and to fund its further investment in Fundo Wheels. 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 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 \$0.42 per common share. 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 \$2.8 million as Due to an affiliate in current liabilities and \$1.7 million as Equity component of 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 65%, risk free rate of 3.96% and expected life of 3.2 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 Company'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) Stock options have been granted to certain key employees and directors to purchase common shares of the Company subject to various vesting requirements. During 2004, the Company established a Share Option Plan (the "Plan") which supersedes the Stock Option Plan for Directors and Key Employees. Under the Plan, options are granted at the discretion of the Board at an exercise price equal to the closing price of the common shares on the Toronto Stock Exchange on the last trading day preceding the day of grant. The options vest equally over a four year period, with the initial 25% vesting after one year. The options have a life of seven years. The maximum number of shares available for issuance under the Plan pursuant to stock options is, as at March 31, 2007, 6,778,250 common shares. The Company is seeking shareholder approval to increase the maximum number of common shares available for the issuance of stock options by 1,669,625 common shares at its 2007 Annual and Special Meeting.

On January 31, 2007, 1,200,000 stock options were granted under the Plan. The fair value of the grant, determined using the Black-Scholes option-pricing model, was \$0.19 per option. The following assumptions were used to calculate the fair value: expected dividend yield of 0%, expected stock volatility of 76.6%, risk free interest rate of 4.1% and expected option life of 7 years. The share option expense is being amortized, according to the vesting schedule, over a four year period.

A summary of the status of the Company's stock option plan as of March 31, 2007 and 2006, and changes during the periods ending on those dates is presented below:

	2007		2006	
	Shares (000's)	Weighted Average Exercise Price	Shares (000's)	Weighted Average Exercise Price
Outstanding at January 1	3,844	\$0.71	3,650	\$0.78
Granted	1,200	\$0.40	-	-
Forfeited	-	-	-	-
Outstanding at March 31	5,044	\$0.64	3,650	\$0.78

At March 31, 2007, 1,730,000 options were exercisable at a weighted average price of \$0.88, with a weighted average remaining life of 4.3 years.

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

7. FINANCIAL INSTRUMENTS

The Company enters into foreign currency contracts to hedge foreign currency risk relating to certain cash flow exposures. The Company's forward exchange contracts reduce the Company'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 a multinational commercial bank and therefore credit risk of counterparty non-performance is remote. As at March 31, 2007, the Company had outstanding exchange contracts to sell approximately \$21.8 million US dollars and €7.3 million over a period of 6 months at a weighted average exchange rate of \$1.1503 and \$1.5181, respectively. For the three months ended March 31, 2007, the Company recorded an unrealized loss of \$0.3 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.

8. SEGMENTED INFORMATION

The Company 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 2007	Magnesium	Silicon	Total 2006
Canada	\$ 1,600	\$ 3,923	\$ 5,523	\$ 3,113	\$ 2,396	\$ 5,509
United States	13,139	12,100	25,239	13,875	9,723	23,598
Mexico	1,290	6	1,296	1,247	-	1,247
Europe	892	6,769	7,661	2,009	10,581	12,590
Australia	900	-	900	851	-	851
Pacific Rim	124	261	385	461	329	790
Other	637	54	691	300	39	339
	\$ 18,582	\$ 23,113	\$ 41,695	\$ 21,856	\$ 23,068	\$ 44,924

(b) Net profit (loss):

(000's)	Three months ended March 31, 2007			
	Magnesium	Silicon	Other	Total
Net income (loss) before the following	\$ (1,029)	\$ 1,176	\$ (1,300)	\$ (1,153)
Amortization	81	712	5	798
Interest	512	419	-	931
Gain on disposal of capital assets	(75)	-	-	(75)
Reorganization expense	-	8	-	8
Equity earnings of Fundo Wheels AS	-	-	172	172
Income tax expense (recovery)	79	53	-	132
Net profit (loss)	\$ (1,626)	\$ (16)	\$ (1,477)	\$ (3,119)

(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)

(c) Identifiable assets:

(000's)	March 31, 2007		
	Magnesium	Silicon	Total
Canada	\$ 8,132	\$ 70,841	\$ 78,973
United States and Other	23,674	-	23,674
	\$ 31,806	\$ 70,841	\$ 102,647
(000's)	December 31, 2006		
Canada	\$ 12,092	\$ 76,602	\$ 88,694
United States and Other	24,308	-	24,308
	\$ 36,400	\$ 76,602	\$ 113,002

(d) Property, Plant & Equipment:

(000's)	March 31, 2007	December 31, 2006
Magnesium	\$ 3,440	\$ 4,033
Silicon	15,259	14,247
	\$ 18,699	\$ 18,280

(e) Additions to Property, Plant & Equipment:

(000's)	Three months ended March 31, 2007	Three months ended March 31, 2006
Magnesium	\$ 205	\$ 138
Silicon	1,587	182
	<u>\$ 1,792</u>	<u>\$ 320</u>

(f) Major customers:

In 2007, one customer accounted for approximately 27% (25% in 2006) of total sales in the Magnesium Group.

In the Silicon Group four customers accounted for 24%, 24%, 13% and 10% (34%, 28%, 1% and 12% in 2006) of total sales respectively.

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The accumulated other comprehensive loss balances are as follows:

(000's)	March 31, 2007	March 31, 2006
Balance at beginning of period	(358)	(952)
Adjustment for changes in accounting policies		
Deferred unrealized losses on foreign exchange forward contracts	(1,086)	-
Other Comprehensive (loss) income	\$ 1,074	\$ 238
Balance at end of period	<u>\$ (370)</u>	<u>\$ (714)</u>

10. SUBSEQUENT EVENTS

On April 9, 2007, the Company announced that it had entered into a bought deal financing. Under the financing, the Company issued a total of 10,000,000 common shares at a price of \$2.60 per share, resulting in gross proceeds of \$26,000,000. The Company and the underwriters (the "Underwriters") also agreed to an over-allotment option of 1,500,000 common shares, at a price of \$2.60 per share, which over-allotment option was exercised in full, resulting in total gross proceeds of the offering of \$29,900,000. On April 30, 2007, the financing and the exercise of the over-allotment option were completed resulting in proceeds of \$28.0 million net of transaction fees. Proceeds from the offering will be used primarily to expand the Company's high purity silicon facility at its wholly-owned subsidiary, Becancour Silicon Inc. and for general corporate purposes.

Also on April 30, 2007, the Company announced that Safeguard had completed its conversion of the entire amount outstanding under the US\$2.0 million convertible promissory note issued March 7, 2006 into 5,601,000 common shares of the Company.