



## **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 June 30, 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 August 3, 2007.

### **OVERVIEW**

The Company is divided into two segments: the Silicon Group and the Magnesium Group. The second quarter, although possessing some positive events, reflected continued challenges in operations resulting in a net loss. Development of the solar silicon production facility continues, with construction scheduled to commence in August 2007.

### **SECOND QUARTER HIGHLIGHTS**

- On April 30, 2007, the Company completed a bought deal financing agreement issuing 11,500,000 common shares at a price of \$2.60 per share, resulting in net proceeds of \$27.8 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 4, 2007, the Silicon Group announced that it had entered into its second long term contract to supply solar silicon.
- For the second quarter, the net loss was \$1.5 million or \$0.02 per share, compared with a net loss of \$2.5 million or \$0.03 per share in the second quarter of 2006. For the six month period ended June 30, 2007, the net loss was \$4.6 million or \$0.06 per share, compared with a net loss of \$4.4 million or \$0.06 per share for the six months ended June 30, 2006.
- As at June 30, 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 June 30, 2007 and to relect the Company's operational recovery plan for the fiscal year of 2007.
- Sales for the second quarter of 2007 were \$41.2 million, the same figure recorded for the second quarter of 2006.
- On April 26, 2007, the Company announced that Safeguard International Fund L.P. ("Safeguard") was exercising its right to convert the entire principal amount outstanding under the US\$2.0 million convertible promissory note issued March 7, 2006 to an affiliate of Safeguard. The foreign exchange rate was \$1.1202 CAD/USD resulting in a CAD\$ principal amount of the note of Cdn\$2,240,400. The conversion rate per the note was Cdn\$0.40 per common share and resulted in 5,601,000 common shares of the Company being issued to Safeguard.
- On July 30, 2007, the Company held a ground breaking ceremony to recognize the commencement of construction of the solar silicon facility. The new plant will consist of three separate production lines, each expected to yield at least 1,200 metric tons of annual capacity bringing the total capacity of the facility to a minimum of 3,600 metric tons per year.

## RESULTS OF OPERATIONS

### QUARTERLY INFORMATION

(000's except per share data)

|   | Three Months ended<br>(unaudited) |               | Six Months ended<br>(unaudited) |               |
|---|-----------------------------------|---------------|---------------------------------|---------------|
|   | June 30, 2007                     | June 30, 2006 | June 30, 2007                   | June 30, 2006 |
| Sales   | 41,202                            | 41,213        | 82,897                          | 86,137        |
| Gross profit  | 2,952                             | 2,516         | 5,999                           | 6,680         |
| Gross profit percentage   | 7.2%                              | 6.1%          | 7.2%                            | 7.8%          |
| Net income (loss)   | (1,502)                           | (2,524)       | (4,621)                         | (4,395)       |
| Earnings (loss) per common share, basic and diluted                     | (0.02)                            | (0.03)        | (0.06)                          | (0.06)        |
| Working capital (excluding cash items)                                  | 22,143                            | 33,939        | 22,143                          | 33,939        |
| Total assets  | 115,047                           | 149,127       | 115,047                         | 149,127       |
| Bank debt   | 9,744                             | 29,268        | 9,744                           | 29,268        |
| Total long term liabilities excluding bank debt                         | 22,903                            | 22,981        | 22,903                          | 22,981        |
| Cash flow from operations   | (6,001)                           | 2,459         | (829)                           | 211           |
| Weighted average number of common shares outstanding, basic and diluted | 86,913                            | 75,133        | 81,055                          | 75,133        |

For the quarter ended June 30, 2007, the net loss was \$1.5 million or \$0.02 per share compared with a loss of \$2.5 million or \$0.03 per share in the second quarter of 2006. For the six months ended June 30, 2007, the net loss was \$4.6 million or \$0.06 per share compared with a loss of \$4.4 million or \$0.06 per share in the same period in 2006.

Sales for the second quarter of 2007 were \$41.2 million which is the same figure as the sales in the second quarter of 2006. For the six months ended June 30, 2007, sales were \$82.9 million compared with \$86.1 million in the first six months of 2006.

#### Silicon Group

In the Silicon Group, sales for the second quarter of 2007 were \$24.4 million compared with \$20.8 million in the second quarter of 2006, an increase of \$3.6 million. For the six months ended June 30, 2007, sales in the Silicon Group were \$47.5 million compared with \$43.9 million for the first six months of 2006. In the second quarter and on a year to date basis, there has been an increase in the sales of silicon metal compared to the same periods in 2006. Sales of ferrosilicon were increased marginally in the second quarter when compared to the second quarter of 2006. Sales of solar silicon from the Company's prototype facility were \$0.8 million in the second quarter of 2007.

For the quarter ended June 30, 2007, the Silicon Group had gross margin of \$0.4 million or 1.5% of sales compared with a negative gross margin of \$0.3 million or 1.5% of sales in the second quarter of 2006. For the six months ended June 30, 2007, gross margin was \$2.0 million or 4.3% of sales compared with nil in the first six months of 2006. The increase in gross margin is related to higher selling prices for materials, predominantly silicon metal, negotiated for the 2007 fiscal year.

#### Magnesium Group

Sales for the Magnesium Group for the second quarter of 2007 were \$16.8 million compared to \$20.4 million in the second quarter of 2006. For the six months ended June 30, 2007, sales were \$35.4 million compared to \$42.3 million in the first six months of 2006. Comparing the second quarter and the six months ended June 30, 2007 with the respective periods in the prior year, sales of anodes and concrete tools were lower in 2007. In addition, the Company withdrew from the photo engraving plate market in the first quarter of 2007. Actual tonnes sold decreased 3.8% in the second quarter of 2007 compared to the same quarter in 2006 and were flat on a year to date basis when compared to the prior year.

Gross margin in the Magnesium Group was \$2.2 million or 13.4% of sales in the second quarter of 2007 compared to \$2.6 million or 12.6% of sales in the second quarter of 2006. For the six months ended June 30, 2007, gross margin was \$3.3 million or 9.4% of sales compared to \$6.0 million or 14.3% of sales during the first six months of 2006. In the second quarter of 2007, the increase in gross margin percentage was due to

lower manufacturing variances and lower overheads. For the six months ended June 30, 2007, the decrease in gross margin percentage when compared to the same period in 2006 is due to higher manufacturing variances, which predominantly occurred in the first quarter, offset by lower overheads costs.

Amortization of capital assets in the second quarter of 2007 was \$0.1 million, down from \$1.0 million in the second 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.

### **Selling and Administration Expenses of the Company**

Selling and administration expenses were \$4.2 million for quarter ended June 30, 2007, an increase of \$0.3 million compared with the same quarter in 2006. For the six months ended June 30, 2007, selling and administration expenses were \$7.3 million compared to \$6.9 million for the first six months of 2006. Non recurring compensation expenses were responsible for the majority of 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, which owns 53% of Fundo, 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.

### **LIQUIDITY AND CAPITAL RESOURCES**

As at March 31 and June 30, 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 those respective dates. Certain of these amendments offer temporary relief and expire December 31, 2007.

On March 7, 2006, the Company borrowed US\$2 million from an affiliate of Safeguard, the Company's controlling shareholder. On April 26, 2007, Safeguard exercised its right to convert the entire principal amount outstanding under this note into 5,601,000 common shares of the Company at a conversion rate of Cdn\$0.40 per common share. The Canadian dollar equivalent of the United States dollars comprised in the principal amount of the note was \$2.24 million.

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. On July 23, 2007, AMG Advanced Metallurgical Group, NV ("AMG"), through Safeguard, converted \$350,000 of the note into 913,500 shares of Timminco. The remainder of the note remains outstanding.

On December 13, 2006, the Company borrowed Euro 700,000 from an affiliate of Safeguard, the Company's controlling shareholder. The loan bore interest at 11%, was due December 31, 2007 and the proceeds were used to invest in the common shares of Fundo. On May 3, 2007, the Company repaid this loan and accrued interest.

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 agreement. Under the agreement, 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 underwriting syndicate (the "Underwriters") also agreed to an over-allotment option of 1,500,000 common shares, at a price of \$2.60 per share, for a period of 30 days from closing. The over-allotment option was exercised in full, resulting in total gross proceeds of the offering of \$29,900,000. 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 financing was completed resulting in proceeds of \$27.8 million net of transaction fees.

The Company's operations consumed cash flow of \$6.0 million in the second quarter of 2007 compared to producing operating cash flow of \$2.5 million in the second quarter of 2006. For the second quarter, the consumption of cash was predominantly a build up of working capital. The increase in inventory was due to replenishment of safety stocks in inventory which had been drawn down in prior quarters due to cash flow restrictions. For the first six months of 2007, the Company consumed operating cash flows of \$0.8 million compared to producing cash flows of \$0.2 million in the first six months of 2006. For the six months ended June 30, 2007, the largest consumption of cash flow was the reduction of accounts payable which were particularly high at year end.

Accounts receivable decreased \$0.6 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 \$2.6 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 increased marginally due to the timing of shipments around quarter end. At June 30, 2007, approximately \$2.0 million of inventory was held under consignment agreements for customers.

During the quarter, the Company capitalized \$1.2 million of development costs related to the solar silicon manufacturing process. There was no amortization of these expenses during the quarter.

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 \$2.3 million when compared to December 31, 2006. The decrease is the result of lower sales and more timely payments during the second quarter of 2007 when compared to December 2006.

***Contractual Obligations as at June 30, 2007 (000's of CAD\$)***

|   | Total           | Less than 1 Year | 1 to 3 Years   | 4 to 5 Years | After 5 Years |
|---|-----------------|------------------|----------------|--------------|---------------|
| <b>Bank debt</b>                          | <b>\$9,744</b>  | <b>\$9,744</b>   | -              | -            | -             |
| <b>Operating leases</b>                   | <b>\$1,861</b>  | <b>\$870</b>     | <b>\$991</b>   | -            | -             |
| <b>Due to an affiliates</b>               | <b>\$8,082</b>  | <b>\$8,082</b>   | -              | -            | -             |
| <b>Capital asset purchase commitments</b> | <b>\$7,800</b>  | <b>\$7,800</b>   | -              | -            | -             |
| <b>Other long term obligations</b>        | <b>\$224</b>    | <b>\$40</b>      | <b>\$184</b>   | -            | -             |
| <b>Total Contractual Obligations</b>      | <b>\$27,711</b> | <b>\$26,536</b>  | <b>\$1,175</b> | -            | -             |

In addition to the contractual 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 June 30, 2007, the Company had no outstanding exchange contracts to sell foreign currencies. During the quarter, the Company closed its outstanding foreign currency contracts, resulting in a gain of \$1.5 million.

### ***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 second quarter of 2007 of \$5.4 million were for the maintenance of facilities at Becancour and purchases related to the expansion of production of solar silicon. Year to date capital expenditures related to the solar silicon project are \$4.3 million. Capital expenditures for 2007 are projected to be \$26.6 million principally to increase capacity of solar silicon production. The Company is constructing a solar silicon manufacturing facility at its Becancour location. The Company has now received regulatory approval to proceed with the construction of the facility. In line with previous estimates, the first of the three lines is anticipated to be operational in the fourth quarter of 2007 and the second and third lines are anticipated to be coming on stream in the first quarter of 2008. It is anticipated full production capacity will be reached in the beginning of the second quarter of 2008. The new plant will consist of three separate production lines, each expected to yield at least 1,200 metric tons of annual capacity bringing the total capacity of the facility to a minimum of 3,600 metric tons per year. 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 April 26, 2007, Safeguard exercised its right to convert the entire principal amount outstanding under the US\$2.0 million convertible promissory note issued March 7, 2006 to an affiliate of Safeguard into 5,601,000 common shares of the Company at a conversion rate of Cdn\$0.40 per common share. The Canadian dollar equivalent of the United States dollars comprised in the principal amount of the note was \$2.24 million.

On August 31, 2006, the Company and Safeguard entered into a promissory note pursuant to which Safeguard loaned US\$3 million to the Company. 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. On July 23, 2007, AMG increased its ownership position in Timminco to 50.6% by exercising its call option to acquire 913,500 Timminco common shares from Safeguard. Safeguard received the shares through the conversion of US\$350,000 principal amount of this note dated August 31, 2006.

On December 13, 2006, the Company borrowed Euro 700,000 from an affiliate of Safeguard, the Company's controlling shareholder. The loan bore interest at 11%, was due December 31, 2007 and the proceeds were used to invest in the common shares of Fundo. On May 03, 2007, the Company repaid this loan and accrued interest.

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.

## CAPITAL STRUCTURE

As at August 3, 2007, 93,739,864 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 6,514,500 common shares of the Company in connection with the conversion of convertible promissory notes and 592,750 shares issued for stock options exercised during the second quarter and in the subsequent 34 days to August 3, 2007.

Of the options to purchase common shares issued to eligible persons under the stock option plan of the Company, 4,313,500 options remain outstanding at exercise prices ranging from Canadian \$0.29 - \$0.96. If exercised, 4,313,500 common shares of the Company would be issued.

Measured at the June 30, 2007 closing exchange rate 1.0634 Can\$/US\$, the remainder of the August 2006 Safeguard loan is convertible into 7,045,025 common shares of the Company, using the same rate. The March 2007 loan from Safeguard is convertible into 10,714,286 shares of the Company.

| Description   | Number of Shares | Book Value    |
|---|------------------|---------------|
| Common shares   | 93,739,864       | \$115,478,000 |
| Common share options                                    | 4,313,500        | 932,000       |
| Common shares issuable upon conversion of notes payable | 17,759,311       | 2,521,000     |

## 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 anticipated 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](http://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 June 30, 2007 was \$9.7 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. At June 30, 2007, three customers accounted for 14%, 13% and 12% (2006 – 16%, 12% and 12%) of the total sales of the Company, respectively.

### ***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. The Company will enter into foreign currency contracts to hedge foreign currency risk relating to certain cash flow exposures as appropriate. 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 2007, the Company continues 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 June 30, 2007, 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, could 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. dollar revenues.

### ***Expansion of Becancour Silicon Inc. ("BSI") 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. This construction is scheduled to begin in August 2007.

### ***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 June 30, 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 June 30, 2007, the fair value loss on currency forward contracts was nil.

## **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 June 30, 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**

Although the quarter and year to date results are an improvement compared to the respective periods in 2006, the Company was still not profitable and thus continued effort to improve results is required. On the positive side, planning and procurement for the new solar silicon facility is progressing well, and commencement of construction of the facility is slated for August 2007.

The Magnesium Group continues to show improvement after recording a significant asset impairment charge in 2006. During the second quarter, the Magnesium Group was profitable, the result of significant re-organization of its supply chain and cost structure over the past two years. The Magnesium Group needs to continue to focus on reducing costs wherever possible and while meeting customer demands to generate profits from its operations.

For the Silicon Group, the first half of 2007 was challenging due to a variety of operating issues and a rail strike. The Silicon Group has an ambitious plan for the second half of 2007: maintaining profitability in the base business while building the new solar silicon facility. The Silicon Group are aware that both of these goals are very important to the Company and its stakeholders and must be accomplished without delay.

The Company continues to believe that 2007 represents an exciting time for the Company and its stakeholders. The improvement in the Magnesium business, after much effort, and the opportunity that solar silicon represents, has been positive for the Company, but further development and improvement is necessary. Successful execution of the Company's plans will be the focus in the second half of 2007. Cost reduction,

maintaining high quality and execution of the solar silicon strategy is of paramount importance to the Company for the balance of 2007.

## 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<br>(unaudited) |                   |                  |                  | Year Ended<br>(audited) |
|---|-----------------------------------|-------------------|------------------|------------------|-------------------------|
|   | March 31,<br>2007                 | March 31,<br>2006 | June 30,<br>2007 | June 30,<br>2006 | December<br>31, 2006    |
| Sales   | \$41,695                          | \$44,924          | \$41,202         | \$41,213         | 176,238                 |
| Gross margin  | 3,047                             | 4,164             | 2,952            | 2,516            | 12,492                  |
| Net income (loss)   | (3,119)                           | (1,871)           | (1,502)          | (2,524)          | (46,233)                |
| Earnings (loss) per common share,<br>basic and diluted                        | (0.04)                            | (0.02)            | (0.02)           | (0.03)           | (0.62)                  |
| Total assets  | 102,796                           | 151,014           | 115,047          | 149,127          | 113,002                 |
| Total bank debt   | 23,115                            | 30,029            | 9,744            | 29,268           | 30,598                  |
| Total long term liabilities   | 22,838                            | 26,682            | 22,903           | 26,744           | 22,754                  |
| Weighted average number of<br>common shares outstanding, basic<br>and diluted | 75,133                            | 75,133            | 86,913           | 75,133           | 75,133                  |

(000's except per share data)

|   | Three Months Ended<br>(unaudited) |                       |                      |                      | Year Ended<br>(audited) |
|---|-----------------------------------|-----------------------|----------------------|----------------------|-------------------------|
|   | September<br>30, 2006             | September<br>30, 2005 | December<br>31, 2006 | December<br>31, 2005 | December<br>31, 2005    |
| Sales   | \$44,065                          | \$46,009              | 46,036               | \$42,756             | 184,348                 |
| Gross margin  | 4,119                             | 4,158                 | 1,693                | 3,348                | 17,496                  |
| Net income (loss)   | (3,105)                           | (5,835)               | (38,733)             | (6,572)              | (15,795)                |
| Earnings (loss) per common share,<br>basic and diluted                        | (0.04)                            | (0.08)                | (0.53)               | (0.09)               | (0.22)                  |
| Total assets  | 149,760                           | 155,905               | 113,002              | 154,188              | 154,188                 |
| Total bank debt   | 33,268                            | 32,283                | 30,598               | 31,851               | 31,851                  |
| Total long term liabilities   | 23,282                            | 27,862                | 22,754               | 26,721               | 26,721                  |
| Weighted average number of<br>common shares outstanding, basic<br>and diluted | 75,133                            | 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](http://www.sedar.com).

**Timminco Limited**

**Consolidated Balance Sheets**

|   | As at<br><b>June 30</b><br><b>2007</b><br>(unaudited) | December 31<br>2006 |
|---|---|---------------------|
| <i>(in thousands of Canadian dollars)</i>                       |   |                     |
| <b>ASSETS</b>   |   |                     |
| <b>Current Assets</b>   |   |                     |
| Cash  | \$ 758  | \$ 804              |
| Accounts receivable   | 19,223  | 19,834              |
| Inventories   | 31,272  | 33,830              |
| Prepaid expenses and deposits                                   | 1,691   | 2,160               |
| Future income taxes   | 225   | 225                 |
|   | <u>53,169</u>   | <u>56,853</u>       |
| <b>Long term receivables</b>                                    | <b>120</b>  | <b>135</b>          |
| <b>Property, plant and equipment</b>                            | <b>23,447</b>   | <b>18,280</b>       |
| <b>Investment in Fundo Wheels AS</b>                            | <b>9,448</b>  | <b>9,173</b>        |
| <b>Employee future benefits</b>                                 | <b>2,085</b>  | <b>2,034</b>        |
| <b>Deferred financing costs</b>                                 | <b>-</b>  | <b>526</b>          |
| <b>Future income taxes</b>                                      | <b>3,307</b>  | <b>3,431</b>        |
| <b>Intangible assets (Note 10)</b>                              | <b>5,163</b>  | <b>4,262</b>        |
| <b>Goodwill</b>   | <b>18,308</b>   | <b>18,308</b>       |
|   | <u>\$ 115,047</u>                                     | <u>\$ 113,002</u>   |
| <b>LIABILITIES</b>  |   |                     |
| <b>Current Liabilities</b>                                      |   |                     |
| Bank indebtedness (Note 5)                                      | \$ 6,382  | \$ 26,243           |
| Accounts payable and accrued liabilities                        | 22,738  | 25,062              |
| Term bank debt (Note 5)   | 3,362   | 4,355               |
| Due to affiliated companies (Note 4, 6 and 13)                  | 5,451   | 5,497               |
| Future income taxes   | 183   | -                   |
| Current portion of long term provisions (Note 11)               | 1,896   | 2,863               |
|   | <u>40,012</u>   | <u>64,020</u>       |
| <b>Loan - other</b>   | <b>184</b>  | <b>202</b>          |
| <b>Employee future benefits</b>                                 | <b>17,832</b>   | <b>17,508</b>       |
| <b>Future income taxes</b>                                      | <b>1,264</b>  | <b>1,324</b>        |
| <b>Long term provisions</b>                                     | <b>3,623</b>  | <b>3,720</b>        |
|   | <u>62,915</u>   | <u>86,774</u>       |
| <b>SHAREHOLDERS' EQUITY</b>                                     |   |                     |
| <b>Capital stock (Note 6)</b>                                   | <b>114,516</b>  | <b>84,191</b>       |
| <b>Equity component of convertible notes (Note 4, 6 and 13)</b> | <b>2,631</b>  | <b>1,693</b>        |
| <b>Contributed surplus</b>                                      | <b>3,316</b>  | <b>3,192</b>        |
| <b>Deficit</b>  | <b>(67,552)</b>                                       | <b>(62,490)</b>     |
| <b>Accumulated other comprehensive loss (Note 2 and 9)</b>      | <b>(779)</b>  | <b>(358)</b>        |
|   | <u>52,132</u>   | <u>26,228</u>       |
|   | <u>\$ 115,047</u>                                     | <u>\$ 113,002</u>   |

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

**Timminco Limited**

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

|  | Three months ended June 30 |                   | Six months ended June 30 |                   |
|--|----------------------------|-------------------|--------------------------|-------------------|
|  | 2007                       | 2006              | 2007                     | 2006              |
| <i>(in thousands of Canadian dollars, except for earnings per share information)</i>                             |                            |                   |                          |                   |
| <b>Sales</b>   | \$ 41,202                  | \$ 41,213         | \$ 82,897                | \$ 86,137         |
| <b>Expenses</b>  |                            |                   |                          |                   |
| Cost of goods sold   | 38,250                     | 38,697            | 76,898                   | 79,457            |
| Selling and administrative   | 4,165                      | 3,910             | 7,324                    | 6,926             |
| Amortization of property, plant and equipment  | 672                        | 1,593             | 1,332                    | 3,176             |
| Amortization of intangible assets  | 137                        | 137               | 275                      | 275               |
| Amortization of deferred financing costs   | -                          | 112               | -                        | 207               |
| Interest   | 634                        | 760               | 1,565                    | 1,446             |
| Foreign exchange (gain) loss   | (2,484)                    | (2,340)           | (1,443)                  | (2,465)           |
| Loss before the undernoted   | (172)                      | (1,656)           | (3,054)                  | (2,885)           |
| Gain (loss) on sale of property, plant and equipment   | (44)                       | 100               | 31                       | 115               |
| Reorganization costs   | (26)                       | -                 | (34)                     | (28)              |
| Equity loss of Fundo Wheels AS   | (955)                      | (1,025)           | (1,127)                  | (1,478)           |
| Loss before income taxes   | (1,197)                    | (2,581)           | (4,184)                  | (4,276)           |
| Income taxes   |                            |                   |                          |                   |
| Current  | 107                        | (83)              | 187                      | 214               |
| Future   | 198                        | 26                | 250                      | (95)              |
|  | 305                        | (57)              | 437                      | 119               |
| <b>Net loss</b>  | \$ (1,502)                 | \$ (2,524)        | \$ (4,621)               | \$ (4,395)        |
| <b>Other Comprehensive Loss, net of income taxes</b>   |                            |                   |                          |                   |
| Loss on foreign exchange forwards realized in the period   | -                          | -                 | 1,086                    | -                 |
| Unrealized gain (loss) on translating financial statement of self-sustaining foreign operation - Fundo Wheels AS | (409)                      | 50                | (421)                    | 288               |
| <b>Comprehensive Loss</b>  | \$ (1,911)                 | \$ (2,474)        | \$ (3,956)               | \$ (4,107)        |
| <b>Loss per common share - basic and diluted</b>   | \$ (0.02)                  | \$ (0.03)         | \$ (0.06)                | \$ (0.06)         |
| <b>Weighted average number of common shares outstanding - basic and diluted (Note 6 (b))</b>                     | <b>86,912,782</b>          | <b>75,132,614</b> | <b>81,055,240</b>        | <b>75,132,614</b> |

**Consolidated Statements of Deficit**  
(unaudited)

|  | Three months ended June 30 |            | Six months ended June 30 |             |
|--|----------------------------|------------|--------------------------|-------------|
|  | 2007                       | 2006       | 2007                     | 2006        |
| <i>(in thousands of Canadian dollars)</i>            |                            |            |                          |             |
| <b>Deficit at beginning of period</b>                | \$ (66,050)                | \$ (890)   | \$ (62,490)              | \$ (16,257) |
| Net loss   | (1,502)                    | (2,524)    | (4,621)                  | (4,395)     |
| Adjustment for changes in accounting policy (Note 2) | -                          | -          | (441)                    | -           |
| <b>Deficit at end of period</b>                      | \$ (67,552)                | \$ (3,414) | \$ (67,552)              | \$ (20,652) |

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

Timminco Limited

**Consolidated Statements of Cash Flows**  
(unaudited)

|   | Three months ended June 30 |                     | Six months ended June 30 |                     |
|---|----------------------------|---------------------|--------------------------|---------------------|
|   | 2007                       | 2006                | 2007                     | 2006                |
| <i>(in thousands of Canadian dollars)</i>                       |                            |                     |                          |                     |
| <b>Cash flows from operating activities</b>                     |                            |                     |                          |                     |
| Net loss  | \$ (1,502)                 | \$ (2,524)          | \$ (4,621)               | \$ (4,395)          |
| Adjustments for items not requiring cash                        |                            |                     |                          |                     |
| Amortization of property, plant and equipment                   | 672                        | 1,593               | 1,332                    | 3,176               |
| Amortization of intangible assets                               | 137                        | 137                 | 275                      | 275                 |
| Amortization of deferred financing costs                        | -                          | 112                 | -                        | 207                 |
| Stock based compensation  | 120                        | 110                 | 234                      | 235                 |
| Reorganization costs  | 26                         | -                   | 34                       | 28                  |
| Benefits plan expense   | 655                        | 747                 | 1,395                    | 1,494               |
| Gain on disposal of property, plant and equipment               | 44                         | (100)               | (31)                     | (115)               |
| Future income taxes   | 247                        | 97                  | 332                      | (25)                |
| Equity loss of Fundo Wheels AS                                  | 955                        | 1,025               | 1,127                    | 1,478               |
| Defined benefit pension plan contributions                      | (500)                      | (267)               | (1,122)                  | (1,367)             |
| Expenditures charged against provision for reorganization       | (384)                      | (446)               | (1,061)                  | (1,169)             |
| Expenditures charged against other long term provisions         | (19)                       | (60)                | (37)                     | (53)                |
| Change in non-cash working capital items                        |                            |                     |                          |                     |
| (Increase) decrease in accounts receivable                      | (3,684)                    | 2,301               | 611                      | 904                 |
| (Increase) decrease in inventories                              | (3,383)                    | (1,599)             | 2,558                    | (605)               |
| (Increase) decrease in prepaid expenses and deposits            | (514)                      | 32                  | 469                      | (70)                |
| Increase (decrease) in accounts payable and accrued liabilities | 1,129                      | 1,301               | (2,324)                  | 213                 |
|   | <u>(6,001)</u>             | <u>2,459</u>        | <u>(829)</u>             | <u>211</u>          |
| <b>Cash flows from investing activities</b>                     |                            |                     |                          |                     |
| Capital expenditures  | (5,398)                    | (1,842)             | (7,190)                  | (2,162)             |
| Development costs capitalized (Note 10)                         | (1,176)                    | -                   | (1,176)                  | -                   |
| Investment in Fundo Wheels AS (Note 3 and 4)                    | -                          | -                   | (1,823)                  | -                   |
| Decrease in long term receivables                               | 10                         | 27                  | 15                       | 45                  |
| Proceeds on disposal of property, plant and equipment           | (43)                       | 100                 | 764                      | 115                 |
| Other   | (23)                       | (256)               | (42)                     | (251)               |
|   | <u>(6,630)</u>             | <u>(1,971)</u>      | <u>(9,452)</u>           | <u>(2,253)</u>      |
| <b>Cash flows from financing activities</b>                     |                            |                     |                          |                     |
| Decrease in bank indebtedness                                   | (12,755)                   | (437)               | (19,861)                 | (1,930)             |
| Decrease in term bank debt                                      | (624)                      | (324)               | (1,011)                  | (653)               |
| (Decrease) increase in loans from affiliated companies          | (1,408)                    | (55)                | 3,132                    | 2,292               |
| Expenditures charged against deferred financing costs           | -                          | (2)                 | -                        | (59)                |
| Issuance of capital stock                                       | 27,975                     | -                   | 27,975                   | -                   |
|   | <u>13,188</u>              | <u>(818)</u>        | <u>10,235</u>            | <u>(350)</u>        |
| <b>Increase (decrease) in cash</b>                              | <b>557</b>                 | <b>(330)</b>        | <b>(46)</b>              | <b>(2,392)</b>      |
| <b>Cash at beginning of period</b>                              | <b>201</b>                 | <b>418</b>          | <b>804</b>               | <b>2,480</b>        |
| <b>Cash at end of period</b>                                    | <b>\$ <u>758</u></b>       | <b>\$ <u>88</u></b> | <b>\$ <u>758</u></b>     | <b>\$ <u>88</u></b> |
| Supplemental information  |                            |                     |                          |                     |
| Cash paid during the period:                                    |                            |                     |                          |                     |
| Interest  | \$ <u>554</u>              | \$ <u>747</u>       | \$ <u>1,269</u>          | \$ <u>1,423</u>     |
| Income taxes  | \$ <u>12</u>               | \$ <u>312</u>       | \$ <u>134</u>            | \$ <u>651</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 June 30, 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 first 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"). On July 11, 2007, Safeguard publicly listed AMG in the Netherlands on the Euronext Amsterdam stock exchange.

**2. CHANGE IN ACCOUNTING POLICIES AND ACCOUNTING CHANGES**

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 June 30, 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 June 30, 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 June 30, 2007, the fair value loss on currency forward contracts was nil.

### **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".

### **ACCOUNTING CHANGES**

Effective January 1, 2007, the Company has adopted the new recommendations of the CICA Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and or relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective. The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes and the required additional disclosure on Recent Accounting Pronouncements as noted below.

### **Recent Accounting Pronouncements**

Recent accounting pronouncements issued and not yet effective:

#### **Capital Disclosures**

CICA Handbook Section 1535, Capital Disclosures, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

#### **Financial Instruments Disclosures**

CICA Handbook Section 3862, Financial Instruments – Disclosures, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company has not yet determined the impact of the adoption of this change on the disclosure in its financial statements.

#### **Financial Instruments Presentation**

CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Fund does not expect the adoption of this standard to have a material impact on presentation in its financial statements.

#### **General Standards on Financial Statement Presentation**

CICA Handbook Section 1400, General Standards on Financial Statement Presentation, has been amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The changes are effective for the Company for interim and annual financial statements beginning January 1, 2008. The Company does not expect the adoption of these changes to have an impact on its financial statements.

#### **International Financial Reporting Standards**

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's financial statements is not yet determinable.

## **Inventories**

The new Section 3031 "Inventories", was issued in June 2007 and replaces existing Section 3030 of the same title. It provides guidance with respect to the determination of cost and requires inventories to be measured at the lower of cost and net realizable value. Reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories is now required. The cost of the inventories should be based on a first-in, first-out or a weighted average cost formula. Techniques used for the measurement of cost of inventories, such as the retail method or standard cost method, may be used for convenience if the results approximate cost. The new standard also requires additional disclosures including the accounting policies used in measuring inventories, the carrying amount of the inventories, amounts recognized as an expense during the period, write-downs and the amount of any reversal of any write-downs recognized as a reduction in expenses. This standard is effective for fiscal years beginning on or after January 1, 2008. The difference in the measurement of opening inventory may be applied to the opening inventory for the period, with an adjustment to opening retained earnings with no prior periods restated, or retrospectively with a restatement to prior periods in accordance with Section 1506 "Accounting Changes". The standard is applicable to the Company for the first quarter of 2008. The Company is currently assessing the implications of this standard to identify differences between the current accounting and the new guidance in the standard.

### **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.

On April 26, 2007, Safeguard gave written notice to the Company that it was exercising its right to convert the entire principal amount outstanding under the US\$2.0 million convertible promissory note issued March 7, 2006 to an affiliate of Safeguard into 5,601,000 common shares of the Company at a conversion rate of Cdn\$0.40 per common share. The Canadian dollar equivalent of the United States dollars comprised in the principal amount of the note was \$2.24 million.

## 5. BANK DEBT

- (a) Bank debt at June 30, 2007 and December 31, 2006 was comprised as follows:

| (000's)                                | June 30, 2007 | December 31, 2006 |
|--|---------------|-------------------|
| Bank indebtedness                      | \$ 6,382      | \$ 26,243         |
| Current portion of long term bank debt | 3,362         | 4,355             |
|  | \$ 9,744      | \$ 30,598         |

At June 30, 2007, total bank debt denominated in US dollars amounted to US\$9.2 million (December 31 2006 - US\$27.3 million).

- (b) 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. As at March 31 and June 30, 2007, the Bank amended the Agreement such that the Company was in compliance with its covenants as at those dates.

Furthermore, the Bank amended the banking agreement in 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.

## 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<br>(000's) |
| Balance as at January 1                  | 75,132,614    | \$ 84,191         |
| Common share offering April 30 (Note 6b) | 11,500,000    | 27,811            |
| Conversion of note (Note 4 and 6b)       | 5,601,000     | 2,240             |
| Stock options exercised                  | 217,750       | 274               |
| Balance as at June 30, 2007              | 92,451,364    | \$ 114,516        |

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. On April 26, 2007, Safeguard gave written notice to the Company that it was exercising its right to convert the entire principal amount outstanding under this note into 5,601,000 common shares of the Company at a conversion rate of Cdn\$0.40 per common share. The Canadian dollar equivalent of the United States dollars comprised in the principal amount of the note was \$2.24 million.

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.

On April 30, 2007, the Company completed a public offering of 10,000,000 common shares at a price of Cdn\$2.60 per common share for gross proceeds of Cdn\$26,000,000. The offering was sold on a bought deal basis. The Underwriters also exercised their over-allotment option in full and purchased an additional 1,500,000 common shares at a price of Cdn\$2.60 per common share for gross proceeds of Cdn\$3,900,000. The total gross proceeds of the Offering was Cdn\$29,900,000. 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.

- (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. On May 31, 2007 the number of common shares available for issuance of stock options was increased by 1,669,625 common shares. The maximum number of shares available for issuance under the Plan pursuant to stock options is, as at June 30, 2007, 8,230,425 common shares.

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 June 30, 2007 and 2006, and changes during the periods ending on those dates is presented below:

|                          | 2007    |                                 | 2006    |                                 |
|--------------------------|---------|---------------------------------|---------|---------------------------------|
|                          | Shares  | Weighted Average Exercise Price | Shares  | Weighted Average Exercise Price |
|                          | (000's) |                                 | (000's) |                                 |
| Outstanding at January 1 | 3,844   | \$0.71                          | 3,650   | \$0.78                          |
| Granted                  | 1,200   | \$0.40                          | 200     | \$0.29                          |
| Exercised                | (218)   | \$0.76                          | -       | -                               |
| Forfeited                | (137)   | \$0.66                          | (200)   | \$0.59                          |
| Outstanding at June 30   | 4,689   | \$0.63                          | 3,650   | \$0.77                          |

At June 30, 2007, 1,562,250 options were exercisable at a weighted average price of \$0.87, with a weighted average remaining life of 3.9 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 June 30, 2007, the Company had no outstanding exchange contracts. As at December 31, 2006, the Company had outstanding exchange contracts to sell approximately \$26.4 million US dollars and €3.4 million over a period of 6 months at a weighted average exchange rate of \$1.1213 and \$1.4920, respectively. The Company recorded an unrealized loss of \$1.1 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.

## 8. COMMITMENTS

The Company has committed to purchase \$7.8 million of capital goods over the next six months related to its construction of a solar silicon production facility.

## 9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The accumulated other comprehensive loss balances are as follows:

| (000's)  | For the three months ended |               | For the six months ended |               |
|--|----------------------------|---------------|--------------------------|---------------|
|  | June 30, 2007              | June 30, 2006 | June 30, 2007            | June 30, 2006 |
| Balance at beginning of period                                   | (370)                      | (714)         | (358)                    | (952)         |
| Adjustment for changes in accounting policies                    |                            |               |                          |               |
| Deferred unrealized losses on foreign exchange forward contracts | -                          | -             | (1,086)                  | -             |
| Other Comprehensive (loss) income                                | \$ (409)                   | \$ 50         | \$ 665                   | \$ 288        |
| Balance at end of period   | \$ (779)                   | \$ (664)      | \$ (779)                 | \$ (664)      |

## 10. INTANGIBLE ASSETS

The Company deferred development costs related to the production of solar grade silicon of \$1.2 million during the quarter ended June 30, 2007. The deferred development costs will be amortized over a period of three years on a straight line basis once production commences.

## 11. REORGANISATION RESERVE

During the three months and six months ended June 30, 2007, cash payments of \$0.4 million and \$1.1 million were charged against the Reorganization reserve, respectively (2006 - \$0.4 million and \$1.2 million).

## 12. 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 June 30 |           |            |           |           |            |
|---------------|----------------------------|-----------|------------|-----------|-----------|------------|
|               | Magnesium                  | Silicon   | Total 2007 | Magnesium | Silicon   | Total 2006 |
| Canada        | \$ 1,715                   | \$ 3,716  | \$ 5,431   | \$ 2,609  | \$ 2,916  | \$ 5,525   |
| United States | 11,735                     | 10,645    | 22,380     | 13,766    | 9,861     | 23,627     |
| Mexico        | 894                        | 11        | 905        | 1,129     | -         | 1,129      |
| Europe        | 706                        | 9,409     | 10,115     | 1,115     | 7,688     | 8,803      |
| Australia     | 1,064                      | -         | 1,064      | 1,015     | -         | 1,015      |
| Pacific Rim   | 448                        | 553       | 1,001      | 547       | 277       | 824        |
| Other         | 233                        | 73        | 306        | 231       | 59        | 290        |
|               | \$ 16,795                  | \$ 24,407 | \$ 41,202  | \$ 20,412 | \$ 20,801 | \$ 41,213  |

| (000's)       | Six months ended June 30 |           |            |           |           |            |
|---------------|--------------------------|-----------|------------|-----------|-----------|------------|
|               | Magnesium                | Silicon   | Total 2007 | Magnesium | Silicon   | Total 2006 |
| Canada        | \$ 3,315                 | \$ 7,639  | \$ 10,954  | \$ 5,722  | \$ 5,312  | \$ 11,034  |
| United States | 24,874                   | 22,745    | 47,619     | 27,641    | 19,584    | 47,225     |
| Mexico        | 2,184                    | 17        | 2,201      | 2,376     | -         | 2,376      |
| Europe        | 1,598                    | 16,178    | 17,776     | 3,124     | 18,269    | 21,393     |
| Australia     | 1,964                    | -         | 1,964      | 1,866     | -         | 1,866      |
| Pacific Rim   | 572                      | 814       | 1,386      | 1,008     | 606       | 1,614      |
| Other         | 870                      | 127       | 997        | 531       | 98        | 629        |
|               | \$ 35,377                | \$ 47,520 | \$ 82,897  | \$ 42,268 | \$ 43,869 | \$ 86,137  |

(b) Net profit (loss):

| (000's)                                | Three months ended June 30, 2007 |          |            |            |
|--|----------------------------------|----------|------------|------------|
|  | Magnesium                        | Silicon  | Other      | Total      |
| Net income (loss) before the following | \$ 776                           | \$ 1,969 | \$ (1,474) | \$ 1,271   |
| Amortization                           | 74                               | 731      | 4          | 809        |
| Interest                               | 110                              | 524      | -          | 634        |
| Loss on disposal of capital assets     | 44                               | -        | -          | 44         |
| Reorganization expense                 | -                                | 26       | -          | 26         |
| Equity earnings in Fundo Wheels AS     | -                                | -        | 955        | 955        |
| Income tax expense (recovery)          | 85                               | 220      | -          | 305        |
| Net profit (loss)                      | \$ 463                           | \$ 468   | \$ (2,433) | \$ (1,502) |

| (000's)                                   | Three months ended June 30, 2006 |          |            |            |
|---|----------------------------------|----------|------------|------------|
|   | Magnesium                        | Silicon  | Other      | Total      |
| Net income (loss) before the following    | \$ 1,476                         | \$ 806   | \$ (1,336) | \$ 946     |
| Amortization                              | 1,014                            | 711      | 5          | 1,730      |
| Interest                                  | 365                              | 395      | -          | 760        |
| Amortization of deferred financing cost   | 57                               | 55       | -          | 112        |
| (Gain) loss on disposal of capital assets | (100)                            | -        | -          | (100)      |
| Equity earnings of Fundo Wheels AS        | -                                | -        | 1,025      | 1,025      |
| Income tax expense                        | 137                              | (194)    | -          | (57)       |
| Net profit (loss)                         | \$ 3                             | \$ (161) | \$ (2,366) | \$ (2,524) |

| (000's)                                | Six months ended June 30, 2007 |          |            | Total      |
|--|--------------------------------|----------|------------|------------|
|  | Magnesium                      | Silicon  | Other      |            |
| Net income (loss) before the following | \$ (253)                       | \$ 3,145 | \$ (2,774) | \$ 118     |
| Amortization                           | 155                            | 1,443    | 9          | 1,607      |
| Interest                               | 622                            | 943      | -          | 1,565      |
| Gain on disposal of capital assets     | (31)                           | -        | -          | (31)       |
| Reorganization expense                 | -                              | 34       | -          | 34         |
| Equity earnings of Fundo Wheels AS     | -                              | -        | 1,127      | 1,127      |
| Income tax expense (recovery)          | 164                            | 273      | -          | 437        |
| Net profit (loss)                      | \$ (1,163)                     | \$ 452   | \$ (3,910) | \$ (4,621) |

| (000's)                                   | Six months ended June 30, 2006 |          |            | Total      |
|---|--------------------------------|----------|------------|------------|
|   | Magnesium                      | Silicon  | Other      |            |
| Net income (loss) before the following    | \$ 3,555                       | \$ 896   | \$ (2,232) | \$ 2,219   |
| Amortization                              | 2,031                          | 1,411    | 9          | 3,451      |
| Interest                                  | 731                            | 715      | -          | 1,446      |
| Amortization of deferred financing cost   | 102                            | 105      | -          | 207        |
| (Gain) loss on disposal of capital assets | (115)                          | -        | -          | (115)      |
| Reorganization expense                    | 28                             | -        | -          | 28         |
| Equity earnings of Fundo Wheels AS        | -                              | -        | 1,478      | 1,478      |
| Income tax expense (recovery)             | 662                            | (543)    | -          | 119        |
| Net profit (loss)                         | \$ 116                         | \$ (792) | \$ (3,719) | \$ (4,395) |

(c) Identifiable assets:

| (000's)                 | Magnesium | Silicon   | June 30, 2007     |
|-------------------------|-----------|-----------|-------------------|
| Canada                  | \$ 8,692  | \$ 83,735 | \$ 92,427         |
| United States and Other | 22,620    | -         | 22,620            |
|                         | \$ 31,312 | \$ 83,735 | \$ 115,047        |
| (000's)                 | Magnesium | Silicon   | 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)   | June 30, 2007 | December 31, 2006 |
|-----------|---------------|-------------------|
| Magnesium | \$ 3,630      | \$ 4,033          |
| Silicon   | 19,817        | 14,247            |
|           | \$ 23,447     | \$ 18,280         |

(e) Additions to Property, Plant & Equipment:

| (000's)   | Three months ended June 30, 2007 | Three months ended June 30, 2006 | Six months ended June 30, 2007 | Six months ended June 30, 2006 |
|-----------|----------------------------------|----------------------------------|--------------------------------|--------------------------------|
| Magnesium | \$ 248                           | \$ -                             | \$ 453                         | \$ 132                         |
| Silicon   | 5,150                            | 1,842                            | 6,737                          | 2,030                          |
|           | \$ 5,398                         | \$ 1,842                         | \$ 7,190                       | \$ 2,162                       |

(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 25%, 22%, 10% and 9% (31%, 24%, 1% and 13% in 2006) of total sales respectively.

### **13. SUBSEQUENT EVENT**

On July 23, 2007 the Company announced that AMG increased its ownership position in Timminco to 50.6% by exercising its call option to acquire 913,500 Timminco common shares from Safeguard. Safeguard received the shares through the conversion of US\$350,000 principal amount of its US\$3 million Promissory Note dated August 31, 2006.