



## **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"), the MD&A included in the Company's most recent Annual Report, and the notes thereto for the year ended December 31, 2004 and the unaudited Consolidated Financial Statements of Timminco Limited for the nine months ended September 30, 2005. Both the 2004 and third quarter 2005 statements were prepared in accordance with Canadian generally accepted accounting principles. All amounts are in Canadian dollars unless otherwise noted.

It should also be noted that Certification by Timminco's CEO and CFO of Interim Filings, as prescribed by Form 52-109FT2, is required in conjunction with the reporting of these quarterly results and is filed accordingly with SEDAR.

## **OVERVIEW**

The difficult business conditions faced by the Company continued during the third quarter of 2005. Lower than anticipated sales in the Magnesium business, correctable operational problems related to a quality issue in the Magnesium Group, the strengthening Canadian dollar and special charges combined to generate a loss in the quarter.

- Sales for the quarter were \$46.0 million compared with \$22.7 million in 2004. The most significant reason for the increase was due to the acquisition of the Silicon business on September 30, 2004.
- The net loss was \$5.8 million or 8 cents per share in the quarter ending September 30, 2005, compared with a net loss of \$2.3 million or 6 cents per share in the corresponding quarter of 2004. Year to date, the net loss was \$9.2 million or 13 cents per share compared with a net loss of \$4.9 million or 14 cents per share for the nine months in 2004.
- Included in the current quarter's \$5.8 million net loss is a \$2.7 million non cash future income tax expense related to an increase in the Company's tax asset valuation allowance and \$0.6 million write off of deferred development costs. Exclusive of these non cash charges the loss for the quarter would have been below the corresponding quarter of 2004 and the previous quarter of 2005.
- Cash from operations for the third quarter of 2005 increased by \$2.3 million to \$2.6 million compared to the third quarter of 2004. For the nine months ended September 30, 2005, the Company generated \$12.6 million in cash from operations compared to \$0.8 million for the same period last year. As a result, the Company reduced its bank debt by \$4.5 million to \$32.3 million from December 31, 2004.
- The Company has a significant net US dollar exposure. The average US/Canadian exchange rate for this quarter was 1.22 compared to 1.32 for a similar period last year. This 7.6% strengthening in the Canadian dollar had a significant negative impact on the Company's results.

## QUARTERLY INFORMATION

(000's except per share data)

	Three Months ended (unaudited)		Nine Months ended (unaudited)	
	September 30, 2005	September 30, 2004 (1)	September 30, 2005	September 30, 2004 (1)
<b>Sales</b>	46,009	22,730	141,592	74,266
<b>Gross profit</b>	4,158	1,663	14,148	8,662
<b>Gross profit percentage</b>	9.0%	7.3%	10.0%	11.7%
<b>Net income (loss)</b>	(5,835)	(2,339)	(9,223)	(4,940)
<b>Earnings (loss) per common share, basic and diluted</b>	(0.08)	(0.06)	(0.13)	(0.14)
<b>Working capital (excluding cash items)</b>	38,521	53,054	38,521	53,054
<b>Total assets</b>	155,905	167,107	155,905	167,107
<b>Bank debt</b>	32,283	39,287	32,283	39,287
<b>Total long term liabilities excluding bank debt</b>	23,182	19,400	23,182	19,400
<b>Cash flow from operations</b>	2,568	229	12,564	826
<b>Weighted average number of common shares outstanding, basic and diluted</b>	75,133	38,474	72,079	36,361

Note: (1) Income statement figures do not include the Silicon business acquired September 30, 2004

## RESULTS OF OPERATIONS

For the third quarter ended September 30, 2005, the net loss was \$5.8 million compared with a loss of \$2.3 million in third quarter of 2004. Sales for the third quarter of 2005 were \$46.0 million compared to \$22.7 million in the third quarter of 2004. During the quarter, the following items had a significant impact on the results: the finalization of the purchase equation in respect of the acquisition of the Silicon business, a revision of the future tax asset balance, reducing the tax asset by \$2.7 million and the Company took a charge of \$0.6 million for certain fees and expenses in respect of an acquisition that the Company was considering. The expenses had been capitalized in anticipation of completing the transaction. As the Company now believes that the transaction is unlikely to be consummated, the fees and expenses have been expensed.

The results of the third quarter of 2004 do not include Becancour Silicon as it was acquired on September 30, 2004 and its results are included from that date forward. The balance sheet figures at September 30, 2004 include the balances from Becancour Silicon.

### Magnesium Group

For the quarter ended September 30, 2005, sales by the Magnesium Group were \$19.9 million, down from \$22.7 million in the third quarter of 2004. For the nine months ended September 30, 2005, sales by the Magnesium Group were \$64.1 million compared to \$74.3 million in the first nine months of 2004. Sales volume in tonnes decreased 10.5% compared with the third quarter of 2004 and 10.0% for the first nine months of 2005 when compared to the same period in the prior year. The decrease was spread across several product lines, and in particular is reflective of overall softness in the water heater market. As the vast majority of the Company's sales are in US dollars, the weakness of the US dollar has negatively impacted sales. For the nine months ended September 30, 2005, the US dollar has weakened approximately 7.7% when compared to 2004 resulting in a decrease in sales of approximately 6.4% directly due to the change in value of the US dollar as approximately 90% of the Magnesium Group's sales are denominated in US dollars.

Gross profit for the third quarter of 2005 was \$2.4 million or 12.3% of sales compared to \$1.7 million or 7.3% of sales in the third quarter 2004. For the nine months ended September 30, 2005, gross profit was \$6.3 million or 9.7% of sales compared to \$8.7 million or 11.7% of sales in the first nine months of 2004. For the quarter compared to the prior year, lower variances and reduced overheads accounted for

the increase in margin. On a year-to-date basis, there were a number of efficiency, quality and production variances that resulted in the lower gross margin. These were partially offset by lower overheads due to reduced headcount. The largest variance in the year was due to an isolated quality problem in one specific product line that has since been corrected. In response to this issue, the Company re-organized the departments responsible for this problem, including the termination of certain individuals and refocused the operation group on quality. The Company estimates that the quality problem negatively affected margins to date by \$1.5 million.

For the nine months ended September 30, 2005, manufacturing overheads decreased from \$9.9 million to \$7.6 million due to lower staffing levels and cost reduction initiatives.

Selling and administrative expenses of \$1.7 million in the current year's third quarter were up \$0.3 million from \$1.4 million in the third quarter of 2004. For the nine months ended September 30, 2005, selling and administrative costs were consistent at \$4.2 million when compared to the first nine months of 2004.

### **Silicon Group**

In the Silicon Group, sales for the third quarter of 2005 were \$26.1 million, an increase of \$0.8 million compared to the third quarter of 2004, caused by an increase in sales of silicon metal and related by-products. The strengthening of the Canadian dollar relative to the US dollar and the Euro has contributed to reduced sales on a comparative basis by \$2.2 million as the majority of the Silicon Group's sales are made in US dollars and Euros. Sales for the nine months ended September 30, 2005 were \$77.5 million compared with \$77.6 million in the first nine months of 2004.

For the nine months ended September 30, 2005, the gross margin was \$7.3 million or 9.5% of sales compared to \$5.0 million or 6.4% of sales in the first nine months of 2004. The higher gross margin was a result of higher selling prices for the Silicon Group's products and improved efficiencies in the manufacturing process. For the quarter ended September 30, 2005, the gross margin in the Silicon Group was \$1.5 million or 5.9% percent of sales compared with \$2.2 million or 8.7% of sales in the third quarter of 2004. The decrease in gross margin in the quarter was the result of increased raw material and electricity prices.

Selling and administrative expenses of \$0.7 million in the third quarter of 2005 decreased slightly from \$0.8 million in the third quarter of 2004. For the nine months ended September 30, 2005, selling and administrative expenses of \$2.1 million was consistent with the same period in 2004.

The foreign exchange gain in the third quarter was \$0.1 million compared to a gain of \$1.9 million in the third quarter of 2004. During 2004, the Silicon Group had foreign exchange contracts that had gains of \$2.4 million in the quarter. For the nine months ended September 30, 2005, the foreign exchange loss was \$0.1 million compared to a gain of \$3.6 million in the first nine months of 2004. The decrease in the gain is due to the absence of contracts as at September 30, 2005, whereas in 2004, the Silicon Group had contracts with accrued gains of \$3.0 million.

### **LIQUIDITY AND CAPITAL RESOURCES**

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

At the initial funding, the Company borrowed \$36.2 million retiring all the outstanding bank debt with the Company's Canadian banks and paying \$0.5 million in transaction expenses. Total fees and expenses for the transaction were \$0.8 million.

As at September 30, 2005, total bank debt was \$32.3 million, compared with \$36.8 million as at December 31, 2004; this includes debt which was acquired when the Company acquired Becancour Silicon. At September 30, 2005, the Company had additional available drawings under the BA Agreement of approximately \$1.3 million measured at the September 30, 2005 exchange rate of Canada/US 1.16. Under the BA Agreement, the Company is subject to certain covenants, conditions and reporting requirements. At September 30, 2005, the Company was in compliance.

The Company's operations generated cash flows of \$2.6 million in the third quarter of 2005 compared to \$0.2 million in the third quarter of 2004. In the first nine months of 2005, the Company's operations generated cash flows of \$12.6 million compared to \$0.8 million in the first nine months of 2004. The increase is predominantly due to the lower working capital and better cash flows from operations. The Company expects to fund interest expense, debt repayments and capital expenditures from cash flow from operations.

Accounts receivable at \$25.3 million were up slightly from the year end figure of \$24.5 million due to higher September sales. Compared to December 31, 2004, inventories have decreased from \$47.1 million to \$35.5 million at September 30, 2005 due to improved inventory management. At September 30, 2005, approximately \$1.1 million of inventory was held under consignment agreements for customers. Prepays have decreased \$3.3 million from December 31, 2004 to September 30, 2005 to a balance of \$1.1 million. At December 31, 2004, the Company had \$2.0 million of unrealized gains related to outstanding exchange contracts recorded under Prepaid Expenses, while as at September 30, 2005, the figure was nil.

Accounts payable and accrued liabilities decreased to \$22.8 million compared to \$25.7 million as at December 31, 2004. The decrease was largely related to a decrease in accounts payable in the magnesium business due to lower raw material purchases and lower accrued liabilities.

During the quarter the Company reviewed its future tax asset. Based on an analysis of the Company's tax assets in each major jurisdiction in which it operates, the Company has decided to increase the valuation allowance against the future tax assets by \$2.7 million.

### ***Purchase Equation***

During the quarter, the Company completed the purchase accounting equation in respect of the purchase on September 30, 2004 of Becancour Silicon Inc. In arriving at the final purchase price allocation, the Company has now completed valuations in respect of the capital assets, land and intangible assets of the Silicon group. The Company used independent valuers to arrive at its allocations. The purchase price allocation adjusted the book values of the Silicon group to fair value by increasing capital assets by \$2.8 million and recognizing intangible assets of \$5.5 million, which includes intangible assets related to technology of \$4.0 million and customer relationships of \$1.5 million. The increase in value of the fixed assets will be amortized over the expected useful life of the related asset and the intangible assets will be amortized over 10 years. This will result in additional depreciation of \$0.4 million per year. As a result of the completion of the purchase equation, goodwill has been reduced to \$18.7 million. Subsequent to the completion of the purchase equation, goodwill was further reduced \$0.3 million in respect of a reduction to the future tax asset valuation allowance.

### ***Change in Management***

On September 1, 2005, Charles H. Entrekin was appointed the new President and CEO of Timminco Limited. In November 2005, Dr. Entrekin was appointed to the Board of Directors of the Company. Previously, Dr. Entrekin served as Executive Vice President Technology and Strategy of Timminco.

### ***Contractual Obligations***

Other than the new banking arrangements described above, there have been no material changes in contractual obligations from those described in the MD&A for the quarter ended March 31, 2005.

### ***Foreign Exchange and Foreign Currency Contracts***

On an annualized basis, approximately 90% of the Company's sales are made outside of Canada and are denominated in US dollars or Euros. For reporting purposes all foreign currency sales and expenses are converted to the Canadian Dollar equivalent at the exchange rate applicable at the time of the transaction. While the Company is exposed to swings in commodity prices and foreign exchange rates, and will continue to be exposed to some extent, when appropriate, the Company endeavours to reduce these risks through hedging or long term contracts. As at September 30, 2005, the Company had no outstanding exchange contracts.

### ***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 third quarter of 2005 of \$0.6 million were for a variety of maintenance and smaller capital projects. Capital expenditures for 2005 are principally to maintain capacity, and support cost reductions. Operating cash flows are forecasted to provide the funding for these capital expenditures.

### **RELATED PARTY TRANSACTIONS**

During April 2005, the Company repaid Safeguard, LLP, its controlling shareholder, \$1.4 million for a note payable and related accrued interest.

### **RISKS AND UNCERTAINTIES**

There are many financial and operational risks inherent in the business, which include, but are not limited to: commodity prices, currency exchange, interest rate, capital, credit, regulatory, operational and environmental risks. The Company takes specific measures to manage these risks. Although the Company maintains insurance against risks that are typical in the Company's industry, such insurance may not provide adequate coverage under all circumstances.

During the quarter, U.S. Magnesium LLC ("US Mag"), a Utah based magnesium company, requested the United States Department of Commerce ("DOC"), initiate a scope inquiry to determine whether Timminco's product exported from Canada is covered by the anti-dumping orders on magnesium from China and Russia. US Mag also requested the DOC initiate a similar review of another company's exports. In response, the DOC initiated a scope review in September 2005. The Company has filed a response to the inquiry to the DOC. In the event that US Mag is successful with its request, duties may be imposed on the Company. The Company expects to learn the results of this matter early in 2006. No provisions have been made in the accounts related to this matter. Management believes that the inquiry is without merit, however management estimates that an adverse ruling would result in a duty payment by the Company in the range of \$0.4 million to \$1.2 million for 2005.

The Company's 2004 annual report and the 2004 Management's Discussion and Analysis contain an expanded discussion of risks which are available at [www.sedar.com](http://www.sedar.com).

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of the Company's financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses for the reporting year. Due to the inherent uncertainty involved with making such estimates, actual results reported in future periods

could differ from those estimates. The Company's 2004 annual report and the 2004 Management's Discussion and Analysis contain an expanded discussion of critical accounting estimates which are available at [www.sedar.com](http://www.sedar.com).

## OUTLOOK

The current year has presented many challenges, principally to the Magnesium business, and the results have been unacceptable. In order to restore the business to profitability, the Company must increase its sales and reduce its cost structure to compete with offshore competition and mitigate the impact of a stronger Canadian dollar. While action has been taken more is likely required and this may result in further restructuring charges in the next quarter. In addition, due to market conditions, particularly in the Magnesium Group, we expect sales to continue to perform below prior periods.

Management is keenly aware of the need to return the Company to profitability and believes that the actions taken and planned will be sufficient to return the Company to profitability in the near future. In the meantime, Management will continue to aggressively manage the Company's cash position through continued working capital reductions, minimal capital spending and improved operations.

## FORWARD LOOKING STATEMENTS

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

## QUARTERLY FINANCIAL INFORMATION

(000's except per share data)

	Three Months Ended (unaudited)				Year Ended (audited)
	March 31, 2004 (1)	March 31, 2005	June 30, 2004 (1)	June 30, 2005	December 31, 2004
<b>Sales</b>	\$25,178	\$48,333	\$26,358	\$47,250	\$123,631
<b>Gross margin</b>	3,495	5,567	3,504	4,423	11,333
<b>Net income (loss)</b>	(1,105)	(428)	(1,496)	(2,960)	(6,907)
<b>Earnings (loss) per common share, basic and diluted</b>	(.03)	(.01)	(.04)	(.04)	(.15)
<b>Total assets</b>	91,233	162,743	93,334	163,797	168,420
<b>Total bank debt</b>	17,782	34,973	17,726	34,256	36,793
<b>Total long term liabilities</b>	3,462	20,597	3,440	26,306	20,319
<b>Weighted average number of common shares outstanding, basic and diluted</b>	32,114	69,383	38,474	71,657	44,662

(000's except per share data)

	Three Months Ended (unaudited)			Year Ended (audited)	
	September 30, 2004 (2)	September 30, 2005	December 31, 2003 (1)	December 31, 2004	December 31, 2003 (1)
<b>Sales</b>	<b>\$22,730</b>	<b>\$46,009</b>	<b>\$22,989</b>	<b>\$49,365</b>	<b>\$99,170</b>
<b>Gross margin</b>	<b>1,663</b>	<b>4,158</b>	<b>3,986</b>	<b>2,671</b>	<b>19,780</b>
<b>Net income (loss) before impairment</b>	<b>(2,339)</b>	<b>(5,835)</b>	<b>890</b>	<b>(1,967)</b>	<b>4,909</b>
<b>Impairment</b>	<b>-</b>	<b>-</b>	<b>(8,685)</b>	<b>-</b>	<b>(8,685)</b>
<b>Net income (loss)</b>	<b>(2,339)</b>	<b>(5,835)</b>	<b>(7,795)</b>	<b>(1,967)</b>	<b>(3,776)</b>
<b>Earnings (loss) per common share, basic and diluted</b>	<b>(.06)</b>	<b>(.08)</b>	<b>(.25)</b>	<b>(.03)</b>	<b>(.13)</b>
<b>Total assets</b>	<b>167,107</b>	<b>155,905</b>	<b>84,610</b>	<b>168,420</b>	<b>84,610</b>
<b>Total bank debt</b>	<b>39,287</b>	<b>32,283</b>	<b>16,927</b>	<b>36,793</b>	<b>16,927</b>
<b>Total long term liabilities</b>	<b>19,400</b>	<b>23,182</b>	<b>14,383</b>	<b>20,319</b>	<b>14,383</b>
<b>Weighted average number of common shares outstanding, basic and diluted</b>	<b>38,474</b>	<b>75,133</b>	<b>30,619</b>	<b>69,383</b>	<b>29,086</b>

Note: (1) Figures do not include the Silicon business acquired September 30, 2004

(2) Income statement figures do not include the Silicon business acquired September 30, 2004

No Dividends were paid during 2003, 2004 or 2005.

#### **OTHER INFORMATION**

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

**Timminco Limited**

**Consolidated Balance Sheets**

	September 30 2005 (unaudited)	As at December 31 2004
<i>(in thousands of dollars)</i>		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 2,216	\$ 568
Restricted cash	40	-
Accounts receivable	25,281	24,507
Inventories	35,511	47,147
Prepaid expenses and deposits	1,111	4,409
Deferred cost	116	151
Future income taxes	651	652
	<u>64,926</u>	<u>77,434</u>
<b>Long term receivables</b>	<b>772</b>	<b>724</b>
<b>Capital assets</b>	<b>51,104</b>	<b>50,353</b>
<b>Investment in Fundo Wheels AS (Note 3)</b>	<b>9,881</b>	<b>6,514</b>
<b>Employee future benefits</b>	<b>1,071</b>	<b>1,012</b>
<b>Deferred financing costs</b>	<b>800</b>	<b>161</b>
<b>Future income taxes</b>	<b>4,005</b>	<b>7,714</b>
<b>Intangible assets (Note 2)</b>	<b>4,950</b>	<b>-</b>
<b>Goodwill (Note 2)</b>	<b>18,396</b>	<b>24,508</b>
	<u>\$ 155,905</u>	<u>\$ 168,420</u>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Bank indebtedness (Note 4)	\$ 26,266	\$ 9,471
Accounts payable and accrued liabilities	22,836	25,704
Current portion of long term bank debt (Note 4)	1,337	27,322
Future income taxes	124	1,971
Current portion of long term provisions	1,189	1,885
	<u>51,752</u>	<u>66,353</u>
<b>Long term bank debt (Note 4)</b>	<b>4,680</b>	<b>-</b>
<b>Employee future benefits</b>	<b>17,493</b>	<b>16,497</b>
<b>Future income taxes</b>	<b>1,900</b>	<b>-</b>
<b>Long term provisions</b>	<b>3,789</b>	<b>3,822</b>
	<u>79,614</u>	<u>86,672</u>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Capital stock (Note 5(b))</b>	<b>84,145</b>	<b>79,802</b>
<b>Warrants</b>	<b>1,393</b>	<b>1,393</b>
<b>Contributed surplus</b>	<b>1,272</b>	<b>1,021</b>
<b>Deficit</b>	<b>(9,685)</b>	<b>(462)</b>
<b>Foreign currency translation adjustment</b>	<b>(834)</b>	<b>(6)</b>
	<u>76,291</u>	<u>81,748</u>
	<u>\$ 155,905</u>	<u>\$ 168,420</u>

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

**Timminco Limited**

**Consolidated Statements of Operations**

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
<i>(in thousands of dollars, except for earnings per share information)</i>				
<b>Sales</b>	\$ <b>46,009</b>	\$ 22,730	\$ <b>141,592</b>	\$ 74,266
<b>Expenses</b>				
Cost of goods sold	<b>41,851</b>	21,067	<b>127,444</b>	65,604
Selling and administrative	<b>4,474</b>	3,001	<b>10,870</b>	8,583
Amortization of capital assets	<b>1,794</b>	1,040	<b>5,064</b>	3,243
Amortization of intangible assets	<b>550</b>	-	<b>550</b>	-
Amortization of deferred financing costs	<b>133</b>	26	<b>215</b>	80
Interest	<b>626</b>	411	<b>2,047</b>	1,105
Foreign exchange gain	<b>(723)</b>	(445)	<b>(23)</b>	(161)
Loss before the undernoted	<b>(2,696)</b>	(2,370)	<b>(4,575)</b>	(4,188)
Reorganization costs	-	-	<b>(839)</b>	(596)
Equity (loss) earnings of Fundo Wheels AS	<b>(298)</b>	105	<b>(268)</b>	4
Loss before income taxes	<b>(2,994)</b>	(2,265)	<b>(5,682)</b>	(4,780)
Income taxes				
Current	<b>157</b>	74	<b>1,647</b>	160
Future	<b>2,684</b>	-	<b>1,894</b>	-
	<b>2,841</b>	74	<b>3,541</b>	160
<b>Net loss</b>	\$ <b>(5,835)</b>	\$ (2,339)	\$ <b>(9,223)</b>	\$ (4,940)
<b>Loss per common share - basic and diluted</b>	\$ <b>(0.08)</b>	\$ (0.06)	\$ <b>(0.13)</b>	\$ (0.14)
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<b>75,132,614</b>	38,473,523	<b>72,078,585</b>	36,361,479

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

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
<i>(in thousands of dollars)</i>				
<b>Retained earnings (deficit) at beginning of period</b>	\$ <b>(3,850)</b>	\$ 3,844	\$ <b>(462)</b>	\$ 6,445
Net loss	<b>(5,835)</b>	(2,339)	<b>(9,223)</b>	(4,940)
<b>Retained earnings (deficit) at end of period</b>	\$ <b>(9,685)</b>	\$ 1,505	\$ <b>(9,685)</b>	\$ 1,505

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

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

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
<i>(in thousands of dollars)</i>				
<b>Cash flows from operating activities</b>				
Net loss	\$ (5,835)	\$ (2,339)	\$ (9,223)	\$ (4,940)
Adjustments for items not requiring cash				
Amortization of capital assets	1,794	1,040	5,064	3,243
Amortization of intangible assets	550	-	550	-
Amortization of deferred financing costs	133	26	215	80
Stock based compensation (Note 5(d))	83	93	251	190
Reorganization costs	-	-	839	596
Net benefits plan expense	690	108	1,970	322
Future income taxes	2,683	-	1,893	-
Equity loss (earnings) of Fundo Wheels AS	298	(105)	268	(4)
Other expense	29	-	40	-
Expenditures charged against provision for reorganization	(646)	(29)	(852)	(783)
Expenditures charged against other long term provisions	(28)	(35)	(1)	(26)
	<u>(249)</u>	<u>(1,241)</u>	<u>1,014</u>	<u>(1,322)</u>
Change in non-cash working capital items				
(Increase) / decrease in accounts receivable	(1,775)	1,412	(774)	(1,162)
Decrease / (increase) in inventories	4,474	840	10,921	952
Decrease / (increase) in prepaid expenses and deposits	1,625	470	2,864	3
(Decrease) / increase in accounts payable and accrued liabilities	(1,507)	(1,252)	(1,461)	2,355
	<u>2,568</u>	<u>229</u>	<u>12,564</u>	<u>826</u>
<b>Cash flows from investing activities</b>				
Capital expenditures	(587)	(766)	(2,586)	(1,891)
Acquisition of Becancour Silicon Inc. (Note 2)	(242)	(1,499)	(324)	(1,499)
Investment in Fundo Wheels AS (Note 3)	(68)	-	(70)	(6,249)
(Increase) / decrease in long term receivables	(87)	30	(48)	(568)
Proceeds on disposal of capital assets	29	-	29	-
Defined benefit pension plan contributions	(341)	(85)	(1,033)	(388)
Other	(22)	-	(23)	-
	<u>(1,318)</u>	<u>(2,320)</u>	<u>(4,055)</u>	<u>(10,595)</u>
<b>Cash flows from financing activities</b>				
Increase / (decrease) in bank indebtedness (Note 4)	(1,201)	2,660	16,795	4,633
(Decrease) / increase in long term bank debt (Note 4)	(772)	(618)	(21,305)	(1,792)
Decrease in loan from related party (Note 7)	-	-	(1,407)	-
Issuance of capital stock (Note 5(b))	-	-	(50)	5,580
Change in restricted cash	-	-	(40)	-
Issuance of warrants	-	-	-	1,393
Expenditures charged against deferred financing costs	(19)	-	(854)	-
	<u>(1,992)</u>	<u>2,042</u>	<u>(6,861)</u>	<u>9,814</u>
<b>Increase / (decrease) in cash</b>	<b>(742)</b>	<b>(49)</b>	<b>1,648</b>	<b>45</b>
<b>Cash at beginning of period</b>	<b>2,958</b>	<b>147</b>	<b>568</b>	<b>53</b>
<b>Cash at end of period</b>	<b>\$ <u>2,216</u></b>	<b>\$ <u>98</u></b>	<b>\$ <u>2,216</u></b>	<b>\$ <u>98</u></b>
Supplemental information				
Cash paid during the period:				
Interest	\$ <u>892</u>	\$ <u>394</u>	\$ <u>2,023</u>	\$ <u>1,061</u>
Income taxes	\$ <u>201</u>	\$ <u>10</u>	\$ <u>525</u>	\$ <u>64</u>
Supplementary disclosure of non-cash investing and financing activities:				
Common stock issued on the acquisition of Becancour Silicon Inc.	\$ -	\$ 28,423	\$ -	\$ 28,423
Common stock issued on the acquisition of shares in Fundo Wheels AS	\$ -	\$ -	\$ <u>4,393</u>	\$ -

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

**Timminco Limited**  
**Notes to Consolidated Financial Statements**  
**For the quarter ended September 30, 2005**  
**Unaudited**

The notes presented in these interim consolidated financial statements refer to only significant events and transactions since December 31, 2004 and are not fully inclusive of all matters normally disclosed in the Corporation's annual audited financial statements including the disclosures required by Canadian Generally Accepted Accounting Principles ("GAAP"). Accordingly, these interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2004. These interim financial statements follow the same accounting policies and methods of application as the most recent annual financial statements. The accounting policies regarding goodwill and intangible assets have been included because of the matters addressed in Note 2.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Goodwill***

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of operations.

***Intangible Assets***

The Company reviews the carrying value of amortizable intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to the amount by which the carrying value of the asset exceeds the fair value of the asset. Purchased intangible assets, which consist of technology and customer relationships are recorded at fair value less accumulated amortization. Intangible assets are amortized on a straight-line basis over the estimated useful lives of the related assets as follows:

- Technology 10 years
- Customer relationships 10 years

**2. ACQUISITION OF BECANCOUR SILICON**

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

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

The aggregate purchase price was approximately \$30.4 million, including acquisition costs of \$2.0 million and was satisfied through the issuance of 30,909,091 common shares issued from treasury valued at \$28.4 million, net of tax. The value was determined using the weighted average of the share price for the two days before and after the transaction announcement. The Corporation employed independent valuers to value the capital and intangible assets of Bécancour Silicon.

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

(000's)	
Current assets	\$ 40,403
Capital assets	13,172
Future income taxes	2,452
Intangible assets	5,500
Goodwill	18,672
<b>Total assets acquired</b>	<b>80,199</b>
Bank loan	19,519
Current liabilities	10,716
Employee future benefits	16,516
Future income taxes	3,098
<b>Total liabilities assumed</b>	<b>49,849</b>
<b>Net assets acquired</b>	<b>\$ 30,350</b>

All of Bécancour Silicon's assets are located in Canada. None of the goodwill is anticipated to be deductible for tax purposes. Subsequent to the completion of the purchase equation, goodwill was further reduced \$0.3 million in respect of a reduction to the future tax asset valuation allowance.

### 3. ACQUISITION OF ADDITIONAL SHARES OF FUNDO WHEELS AS

On May 25, 2005, the Corporation acquired 726 shares of Fundo Wheels AS ("Fundo Wheels"). The purchase price was satisfied by the issuance of 5,750,000 common shares of the Corporation 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. As a result of the transaction, the Corporation's ownership interest increased from 24% to 47% of Fundo Wheels.

### 4. BANK DEBT

(a) Bank debt at September 30, 2005 and December 31, 2004 was comprised as follows:

(000's)	September 30, 2005	December 31, 2004
Bank indebtedness	\$ 26,266	\$ 9,471
Current portion of long term bank debt	1,337	27,322
Long term bank debt	4,680	-
	<b>\$ 32,283</b>	<b>\$ 36,793</b>

At September 30, 2005, total debt denominated in US dollars amounted to US\$27.5 million.

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

option of the Corporation and subject to meeting certain requirements, may be extended to April 30, 2010. The loans are secured by the assets of the Corporation.

- (c) At the initial funding, the Corporation borrowed \$36.2 million retiring all the outstanding bank debt with the Corporation's Canadian banks. Fees for the transaction were \$0.8 million.

## 5. CAPITAL STOCK

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

Issued: none

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

Issued capital is:

	Common Shares	
	No. of Shares	Amount (000's)
Balance as at December 31, 2004	69,382,614	\$79,802
Issued from Treasury (Note 3)	5,750,000	4,343
Balance as at September 30, 2005	75,132,614	\$84,145

- (c) The Corporation's shares rank in the priority of Class A and Class B preference shares and then common shares with respect to the payment of dividends and the return of capital.
- (d) A summary of the status of the Corporation's two stock option plans as of September 30, 2005 and 2004, and changes during the periods ending on those dates is presented below:

	2005 Shares (000's)	Weighted Average Exercise Price	2004 Shares (000's)	Weighted Average Exercise Price
Outstanding at January 1	2,145	\$1.11	160	\$2.93
Granted	-	-	2,210	\$0.96
Forfeited	(235)	\$2.30	-	-
Outstanding at September 30	1,910	\$0.96	2,370	\$1.09

At September 30, 2005, 477,500 options were exercisable at a price of \$0.96, with a weighted average remaining life of 5.50 years.

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

## 6. FINANCIAL INSTRUMENTS

The Corporation enters into foreign currency contracts to hedge foreign currency risk relating to certain cash flow exposures. The Corporation's forward exchange contracts reduce the Corporation's risk from exchange movements because gains and losses on such contracts offset losses and gains on transactions being hedged. The counterparties to the contracts are multinational commercial banks and therefore credit risk of counterparty non-performance is remote. As at September 30, 2005, the Corporation had no outstanding exchange 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.

## 7. RELATED PARTY TRANSACTION

During April 2005, the Company repaid Safeguard, LLP, its controlling shareholder, \$1.4 million for a note payable and related accrued interest.

## 8. CONTINGENT LIABILITY

During the quarter, U.S. Magnesium LLC ("US Mag"), a Utah based magnesium company, requested the United States Department of Commerce ("DOC"), initiate a scope inquiry to determine whether Timminco's product exported from Canada is covered by the anti-dumping orders on magnesium from China and Russia. US Mag also requested the DOC initiate a similar review of another company's exports. In response, the DOC initiated a scope review in September 2005. The Company has filed a response to the inquiry to the DOC. In the event that US Mag is successful with its request, duties may be imposed on the Company. The Company expects to learn the results of this matter early in 2006. No provisions have been made in the accounts related to this matter. Management believes that the inquiry is without merit, however management estimates that an adverse ruling would result in a duty payment by the Company in the range of \$0.4 million to \$1.2 million for 2005.

## 9. 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"). Prior to the acquisition of Bécancour Silicon on September 30, 2004, all operations were attributed to the Magnesium Products business. Segmented information on sales and identifiable assets by geographic region is as follows:

(a) Sales:

(000's)	Three months ended September 30			
	Magnesium	Silicon	2005	2004
Canada	\$ 1,701	\$ 5,090	\$ 6,791	\$ 1,872
United States	12,630	15,706	28,336	12,835
Mexico	965	-	965	1,209
Europe	2,634	4,977	7,611	3,853
Australia	1,266	-	1,266	1,635
Pacific Rim	455	294	749	808
Other	263	28	291	518
	<u>\$ 19,914</u>	<u>\$ 26,095</u>	<u>\$ 46,009</u>	<u>\$ 22,730</u>

(000's)	Nine months ended September 30			
	Magnesium	Silicon	2005	2004
Canada	\$ 7,674	\$ 11,653	\$ 19,327	\$ 8,552
United States	40,492	46,333	86,825	43,052
Mexico	2,960	6	2,966	3,868
Europe	6,866	18,437	25,303	10,703
Australia	3,707	-	3,707	4,692
Pacific Rim	1,599	943	2,542	2,078
Other	828	94	922	1,321
	<u>\$ 64,126</u>	<u>\$ 77,466</u>	<u>\$ 141,592</u>	<u>\$ 74,266</u>

## (b) Net loss:

(000's)	Three months ended September 30			2005	2004
	Magnesium	Silicon	Other		
Net income (loss) before the following	1,133	1,192	(1,918)	407	(788)
Amortization	999	1,296	49	2,344	1,040
Interest	318	308	-	626	411
Amortization of deferred financing cost	110	23	-	133	26
Equity loss	-	-	298	298	-
Income tax expense (recovery)	3,019	(178)	-	2,841	74
<b>Net (loss)</b>	<b>\$(3,313)</b>	<b>\$(257)</b>	<b>\$(2,265)</b>	<b>\$(5,835)</b>	<b>\$(2,339)</b>

(000's)	Nine months ended September 30			2005	2004
	Magnesium	Silicon	Other		
Net income (loss) before the following	2,133	5,722	(4,554)	3,301	240
Amortization	2,820	2,647	147	5,614	3,243
Interest	948	1,099	-	2,047	1,185
Amortization of deferred financing cost	172	43	-	215	80
Reorganization	839	-	-	839	596
Equity loss	-	-	268	268	(4)
Income tax expense	3,029	512	-	3,541	160
<b>Net (loss)/income</b>	<b>\$(5,675)</b>	<b>\$1,421</b>	<b>\$(4,969)</b>	<b>\$(9,223)</b>	<b>\$(4,940)</b>

## (c) Identifiable assets:

(000's)	September 30,	
	Magnesium	Silicon
Canada	\$ 44,581	\$ 77,287
United States and Other	34,037	-
	<b>\$ 78,618</b>	<b>\$ 77,287</b>
		<b>\$ 155,905</b>
(000's)	December 31,	
	Magnesium	Silicon
Canada	\$ 53,240	\$ 82,127
United States and Other	33,053	-
	<b>\$ 86,293</b>	<b>\$ 82,127</b>
		<b>\$ 168,420</b>

## (d) Capital assets:

(000's)	September 30, 2005	December 31, 2004
Magnesium	\$ 38,022	\$ 40,043
Silicon	13,082	10,310
	<b>\$ 51,104</b>	<b>\$ 50,353</b>

(e) Additions to Capital assets:

(000's)	Three months ended September 30, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 2004
Magnesium	\$ 419	\$ 766	\$ 991	\$ 1,891
Silicon	168	-	1,595	-
	<u>\$ 587</u>	<u>\$ 766</u>	<u>\$ 2,586</u>	<u>\$ 1,891</u>

(f) Major customers:

In 2005, two customers accounted for approximately 25% (22% in 2004) and 10% (9% in 2004) of total sales in the Magnesium Products business.

In the Silicon Metal business three customers accounted for 31%, 15%, and 13% of total sales respectively.