

November 13, 2008

Timminco's Cost Figures Disappoint, But May Be Far Worse Than They Appear

Timminco Limited (TSX: TIM C\$7.45) claims that in the third quarter its solar grade silicon business had an average sales price of C\$53 per kilogram. Timminco's production figure and cost claim of C\$31 per kilogram yield a gross profit of C\$6.6 million. Timminco's average sales price decreased 18.5% from C\$65 per kilogram in the second quarter, while costs decreased only C\$1 per kilogram. In the third quarter conference call, Timminco management was asked whether the cost target they had previously touted of C\$10 to C\$15 per kilogram would be realizable after the ramp up of the company's new solar grade silicon facilities. Timminco management only stated that it would not be focusing on a specific cost target going forward. Timminco also removed from its website the review of Photon Consulting attesting to its profitability.

Timminco's accounting of its inventories raises serious questions about the reliability of its cost figures. Inventories increased C\$20 million, or 33%, from the second to the third quarter. This follows a C\$20 million, or 50%, increase for the six months ended June 30th. In the third quarter conference call, Timminco management disclosed that some of its inventory is "by-product," material which had gone through the purification process, but which was apparently unusable. Timminco management then stated that they planned to process the by-product material into usable material. Timminco CFO Robert Dietrich stated, "this material has low levels of impurities and can be recycled as a lower-cost input than silicon metal feedstock." Investors do not know the impurity levels or alleged input savings, but they do know that Timminco's inventories already include absorbed input cost that would have otherwise been shown as a cost of sale.

Management refused to disclose how much of its inventory was by-product versus raw material, either in metric tons or in dollar figures. Rene Boisvert, president of Timminco's solar grade silicon division, was asked whether the by-product would need to be passed through a furnace fewer times than the raw material, but Boisvert stated that the by-product would still go through the "three-pass process" used for raw material, "but with now a better control of the purification process."

The by-product inventory could be taken as adding some degree of dubiousness to Timminco's accounting of its costs, as Timminco provided no disclosure of how much cost was incurred producing the by-product material.

Confounding the inventory issue further is that the impurity levels in the by-product material are not disclosed, nor is the percentage of processed material which has ended up as by-product. The likelihood of by-product material reaching usable impurity-levels cannot be ascertained from Timminco disclosures.

Though Timminco management stated again in the third quarter conference call that there have been no returns of shipped solar grade silicon, there was again no disclosure made on the insured liability of potential returns in the future. The return issue further confounds the accuracy of Timminco's stated cost figures.

Lastly, the reliability of Timminco's cost figures may be undermined by costs capitalized into property, plant and equipment. Timminco's financial statements identify C\$22.7 million in capital expenditures during the third quarter.

For the nine months ended September 30th, Timminco has made C\$51.6 million in capital expenditures. Timminco's statements identify further commitments of C\$27.1 million due within one year for the expansion of solar silicon production.