

SOLAR POWER

Report questions Timminco claims

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It will be a "miracle" if **Timminco Ltd.** can deliver on its promises, according to a research report that raises questions about the company's claims to have developed a revolutionary method of producing silicon for use in solar cells at costs well below those of competitors.

The culmination of three months of research regarding Timminco and the solar industry, the 26-page report by Veritas Investment Research analysts Neeraj Monga and Chris Silvestre, offers a decidedly negative take on Toronto-based Timminco's prospects.

"While Timminco claims that it can produce UMG-Si (Upgraded Metallurgical Silicon) at a cost of \$10 to \$15/kg, we believe that based on 3rd party verified product specifications, the full economic costs of Timminco's Si is approximately \$57.00 kg."

A once sleepy producer of industrial grade silicon and magnesium, Timminco became a stock market darling last year when it unveiled a "breakthrough" low-cost process to purify silicon to levels good enough for use in solar cells.

The stock rocketed from pennies to more than \$35 a share, but recently plunged below \$13 after the company missed production targets. Yesterday, it jumped \$2 to \$15.24 on the TSX after a Quebec television report said Timminco will partner to build a new solar panel facility in the province.

Timminco has divided the investment community, attracting critics and short sellers who have attacked the company's claims. It has also garnered high-profile champions including Sprott Asset Management Inc., which owns 17 per cent of Timminco.

The Veritas report is sure to provide more ammunition for detractors. It calls Timminco's lower capital expenditures a "myth," suggests its secret process is similar to others and predicts that the currently tight solar-grade silicon market will be in balance by 2011, thereby reducing the demand for Timminco's product.

"Our review of industry literature, the view expressed by various industry participants in public forums, circumstantial evidence surrounding lack of progress in volume delivery at Timminco, a convoluted ownership structure ... all suggests it will be a miracle if Timminco can deliver on its promises," the report says. "Investing however is about diligence and fortitude and not miracles. Sell." Timminco executives were unavailable to comment.

Veritas says that Timminco is not, in fact, producing solar-grade silicon. Rather, it says, the company is producing upgraded material that must still go through a process called "directional solidification" before it can be used to solar cells.

While polysilicon, the high purity and costly material Timminco is aiming to usurp needs to go through the directional solidification process only once, Timminco's material is less pure and needs to undergo directional solidification at least 1.3 times, Veritas believes.

"This adds significant costs, the brunt of which Timminco would have to bear in a market where polysilicon is in adequate supply," says the report, which estimates it will cost the company's customers an additional \$10.27 a kilogram.

Veritas also states that solar cells made using upgraded metallurgical silicon are less efficient than those made with polysilicon. If solar cell makers used lower grade silicon from Timminco, they would have to produce larger solar panels to generate the same amount of power, the report says.

Timminco hopes to produce 3,600 tonnes of solar-grade silicon next year and has plans to expand capacity to more than 14,000 tonnes. In an interview, Mr. Monga said that by the time the expansion is complete the market will be fully supplied with polysilicon, which will drive down the price of the commodity to \$60 (U.S.) a kilogram from the current \$250 a kilogram.

"This is the first time there has been such a significant shortage of silicon and people are looking for any anchor they can find. That's why there is Timminco. Maybe Timminco will deliver, but I think it is highly unlikely," he said.