Consolidated
Financial Statements

Years ended
May 31,
2010
and 2009

Management's Report to the Shareholders of 5N Plus Inc.

The accompanying consolidated financial statements are the responsibility of the management of 5N Plus Inc., and have been reviewed by the Audit Committee and approved by the Board of Directors.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain estimates that reflect management's best judgment.

Management is also responsible for all other information included in this Annual Report and for ensuring that this information is consistent with the Company's consolidated financial statements and business activities.

The Management of the Company is responsible for the design, establishment and maintenance of appropriate internal controls and procedures for financial reporting, to ensure that financial statements for external purposes are fairly presented in conformity with generally accepted accounting principles. Such internal controls systems are designed to provide reasonable assurance on the reliability of the financial information and the safeguarding of assets.

External auditors have free and independent access to the Audit Committee, which is comprised of outside independent directors. The Audit Committee, which meets regularly throughout the year with members of management reviews the consolidated financial statements and recommends their approval to the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP.

SIGNED

Jacques L'Écuyer
President and Chief Executive Officer

SIGNED

David Langlois, CA
Chief Financial Officer

Montréal, Canada
August 10, 2010

Auditors' Report to the Shareholders of 5N Plus Inc.

We have audited the consolidated balance sheets of 5N Plus Inc. as at May 31, 2010 and 2009 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

SIGNED

KPMG LLP[1]
Chartered Accountants

Montréal, Canada
July 23, 2010

[1] CA Auditor permit no 13381

Consolidated Statements of Income

Years ended May 31

(in Canadian dollars, except number of shares)	Note	2010	2009
		$	$
Sales		70,763,345	69,373,117
Cost of sales	13	38,910,641	34,174,231
Gross profit		31,852,704	35,198,886
Expenses			
Selling and administrative		7,068,705	5,277,745
Depreciation of property, plant and equipment	4	2,544,542	2,154,552
Amortization of intangible assets		188,249	–
Research and development		1,858,038	1,241,142
Foreign exchange gain	15a	(1,183,978)	(3,441,588)
Financial	16	185,512	377,449
Interest income		(463,678)	(1,118,881)
		10,197,390	4,490,419
Earnings before the following:		21,655,314	30,708,467
Start-up costs, new plant		–	711,709
Earnings before income taxes from continuing operations		21,655,314	29,996,758
Income taxes	12		
Current		6,441,776	7,727,016
Future		70,228	1,401,618
		6,512,004	9,128,634
Net earnings from continuing operations		15,143,310	20,868,124
Net loss from discontinued operations	22	(495,770)	–
Net earnings		14,647,540	20,868,124
Earnings per share from continuing operations	20		
Basic		0.33	0.46
Diluted		0.33	0.45
Earnings per share	20		
Basic		0.32	0.46
Diluted		0.32	0.45
Weighted average number of common shares outstanding	20		
Basic		45,578,992	45,505,213
Diluted		45,833,291	45,876,122

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

Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Years ended May 31

(in Canadian dollars)	Note	2010	2009
		$	$
Net earnings		14,647,540	20,868,124
Other comprehensive income			
Net gain on derivative financial instruments designated as cash flow hedges	15b	1,255,048	–
Net loss on translating financial statements of self-sustaining foreign operations		(3,675,494)	(343,467)
Other comprehensive income		(2,420,446)	(343,467)
Comprehensive income		12,227,094	20,524,657

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

Consolidated Statements of Shareholders' Equity

Years ended May 31

(in Canadian dollars)	Note	2010	2009
		$	$
Share Capital	11a		
Beginning of year		81,881,914	81,788,694
Shares issued under stock option plan		507,956	93,220
End of year		82,389,870	81,881,914
Contributed Surplus			
Beginning of year		797,800	242,136
Stock option compensation cost	11b	750,879	588,209
Shares issued under stock option plan		(176,156)	(32,545)
End of year		1,372,523	797,800
Accumulated other comprehensive income			
Beginning of year		(111,048)	–
Net gain on derivative financial instruments designated as cash flow hedges	15b	1,255,048	–
Net loss on translating financial statements of self-sustaining foreign operations		(3,675,494)	(343,467)
Translation from temporal method to current rate method		–	232,419
End of year		(2,531,494)	(111,048)
Retained earnings			
Beginning of year		29,800,098	8,931,974
Net earnings		14,647,540	20,868,124
End of year		44,447,638	29,800,098
Shareholders' equity		125,678,537	112,368,764

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

Consolidated Balance Sheets

As at May 31

(in Canadian dollars)	Note	2010	2009
		$	$
Assets			
Current assets			
Cash and cash equivalents		67,992,321	65,066,530
Accounts receivable	2	4,774,460	6,702,197
Inventories	3	27,705,149	27,054,960
Prepaid expenses and deposits		1,073,025	516,391
Derivative financial instruments	15c	1,362,804	1,685,076
Income taxes recoverable		516,602	–
Future income taxes	12	150,598	249,958
		103,574,959	101,275,112
Property, plant and equipment	4	26,437,302	25,823,473
Intangible assets	5	1,770,913	354,950
Goodwill	6	4,381,762	–
Future income taxes	12	2,311,191	662,639
Other assets		45,181	52,682
		138,521,308	128,168,856
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities	8	4,646,220	6,791,675
Income taxes payable		43,826	3,021,632
Current portion of long-term debt	9	622,820	549,922
Current portion of other long-term liabilities		–	41,725
Future income taxes	12	444,662	311,897
		5,757,528	10,716,851
Long-term debt	9	4,197,803	3,997,923
Deferred revenues	10	553,578	641,618
Future income taxes	12	2,333,862	443,700
		12,842,771	15,800,092
Shareholders' equity			
Share capital	11	82,389,870	81,881,914
Contributed surplus		1,372,523	797,800
Accumulated other comprehensive income		(2,531,494)	(111,048)
Retained earnings		44,447,638	29,800,098
		125,678,537	112,368,764
		138,521,308	128,168,856

Commitments (note 19)
Subsequent event (note 23)
The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

SIGNED

Jacques L'Écuyer
Director

SIGNED

Jean-Marie Bourassa
Director

Consolidated Statements Of Cash Flows

Years ended May 31

(in Canadian dollars)	Note	2010	2009
		$	$
Operating activities			
Net earnings		14,647,540	20,868,124
Net loss from discontinued operations	22	495,770	–
Net earnings from continuing operations		15,143,310	20,868,124
Non-cash items:			
Depreciation of property, plant and equipment	4	2,544,542	2,154,552
Amortization of intangible assets		188,249	–
Future income taxes		70,228	1,401,618
Unrealized gain on derivative financial instruments		–	(1,685,076)
Realized gain on cash flow hedges, net of taxes		1,177,489	–
Foreign exchange loss on cash and cash equivalents		–	(168,919)
Deferred revenues		(2,980)	(115,986)
Stock option compensation	11b	750,879	588,209
Other		81,168	84,525
		19,952,885	23,127,047
Net changes in non-cash working capital items			
Accounts receivable		2,011,130	6,107,602
Inventories		(290,107)	(14,438,064)
Prepaid expenses and deposits		(398,131)	(165,501)
Income taxes recoverable		(1,291,971)	–
Derivative financial instruments		438,614	–
Accounts payable and accrued liabilities		(616,314)	323,341
Income taxes payable		(2,977,806)	1,285,220
		(3,124,585)	(6,887,402)
		16,828,300	16,239,645
Investing activities from continuing operations			
Acquisition of property, plant and equipment		(4,587,910)	(8,663,805)
Acquisition of intangible assets		(249,258)	–
Acquisition of a business net of cash acquired	6	(7,747,997)	–
Other		7,500	3,001
		(12,577,665)	(8,660,804)
Financing activities from continuing operations			
Net change in bank loan		–	(1,384,111)
Repayment of long-term debt		(585,374)	(578,105)
Net change in other long-term liabilities		(41,725)	(356,432)
Proceeds from exercise of stock options		331,800	60,675
		(295,299)	(2,257,973)
Effect of foreign exchange rates changes on cash and cash equivalents from continuing operations		(533,775)	168,919
Net increase from continuing operations in cash and cash equivalents		3,421,561	5,489,787
Net decrease from discontinued operations in cash and cash equivalents	22	(495,770)	–
Net increase in cash and cash equivalents		2,925,791	5,489,787
Cash and cash equivalents at beginning of year		65,066,530	59,576,743
Cash and cash equivalents at end of year		67,992,321	65,066,530
Supplementary information			
Property, plant and equipment unpaid and included in accounts payables and accrued liabilities		199,892	192,453
Interest paid		121,138	278,088
Income taxes paid		8,902,980	6,111,194

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

1. Summary of Significant Accounting Policies

The consolidated financial statements of 5N Plus Inc., the ("Company") are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Use of estimates

The preparation of the consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include estimating the useful life of long-lived assets, as well as assessing the recoverability of accounts receivable, research tax credits, future income taxes and the valuation of intangible assets, goodwill and other long-lived assets. Reported amounts and note disclosure reflect the overall economic conditions that are most likely to occur and anticipated measures to be taken by management. Actual results could differ from these estimates.

Foreign exchange

Revenues and expenses denominated in foreign currencies are recorded at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Realized and unrealized translation gains and losses are reflected in net earnings.

All assets and liabilities of self-sustaining foreign subsidiaries are accounted for using the current rate method. Under this method, assets and liabilities of subsidiaries denominated in a foreign currency are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the period. Foreign exchange gain and loss on translation of self-sustaining subsidiaries' financial statements are presented under "Accumulated other comprehensive income" which have no impact on the consolidated statements of income, unless the Company reduces its net investment in these foreign operations.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments held with investment-grade financial institutions having an initial maturity of 90 days or less. Cash and cash equivalents are designated as held for trading and accounted for at fair value.

Inventories

Raw materials are valued at the lower of cost and net realizable value, cost being determined using the average cost method. Finished goods are valued at the lower of cost and net realizable value, cost being determined under the average cost method and representing the value of raw materials, direct labour and a reasonable proportion of factory overhead.

From time to time, when substantially all required raw material is in inventory, the Company may choose to enter into long-term sales contracts at fixed prices. The quantity of raw material required to fulfill these contracts is specifically assigned and the average cost of the raw material of this inventory is accounted for throughout the duration of the contract.

1. Summary of Significant Accounting Policies (continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost, net of government assistance. Depreciation is calculated under the straight-line method at the following annual rates:

	Periods
Buildings	25 years
Leasehold improvements	10 to 20 years
Production equipment	10 years
Rolling stock	10 years
Furniture and office equipment	3 and 10 years
Computer equipment	3 years

Intangible assets

Intangible assets are recorded at cost and amortized on a straight-line method on their estimated useful life at the following rates:

	Periods
Software	5 years
Intellectual property	10 years

Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the fair value assigned to assets acquired and liabilities assumed. Goodwill is assessed for impairment at least annually or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. The assessment of impairment is based on fair values derived from certain valuation models, which may consider various factors such as normalized and estimated future earnings, price earnings multiples, terminal values and discount rates. The Company has designated May 31 as the date for its annual impairment test. As at May 31, 2010, goodwill was not considered to be impaired.

Impairment and disposal of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of long-lived assets may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying value of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and would no longer be depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability section of the balance sheet.

Revenue recognition

Revenues are recognized when products are shipped or delivered in accordance with the customer contract and the ability to collect is reasonably assured.

Revenues from custom refining activities are recognized when products are delivered and all the material risks and advantages inherent in ownership are transferred to the customers.

Research and development

Research expenditures are expensed as incurred. They include a reasonable proportion of indirect costs. Development expenditures are deferred when they meet the capitalization criteria provided for by Canadian GAAP, and it is considered reasonably certain that future advantages will be realized. As at May 31, 2010 and 2009, no development expenses have been deferred.

1. Summary of Significant Accounting Policies (continued)

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, temporary differences between carrying amount and the income tax bases of assets and liabilities are recorded using the substantively enacted tax rates expected to be in effect for the year in which the temporary differences are expected to reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

Guarantees

In the normal course of business, the Company enters into various agreements that may contain features that meet the definition of a guarantee. A guarantee is defined to be a contract (including an indemnity) that contingently requires the Company to make payments to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable that is related to an asset, a liability or an equity security of the guaranteed party, (ii) failure of another party to perform under an obligating agreement, or (iii) failure of another party to pay its indebtedness when due.

Stock-based compensation and other stock-based payments

All awards granted to employees and directors are recorded using the fair value method. Under this method, the estimated fair value of the options is determined using the Black-Scholes option pricing model. The value of the compensation expense is recognized over the vesting period of the stock options with a corresponding increase in contributed surplus.

Earnings per share

Basic and diluted earnings per share have been determined by dividing the consolidated net income for the year by the basic and diluted weighted average number of shares outstanding, respectively.

The diluted weighted average number of common shares outstanding is calculated as if all dilutive options had been exercised and that proceeds from the exercise of such dilutive options were used to repurchase common shares at the average market price for the period.

Government assistance

Government assistance, consisting of research tax credits and grants, is recorded as a reduction of the related expense or cost of the asset acquired. Government grants are recognized when there is reasonable assurance that the Company has met the requirements of the approved grant program. Research tax credits are recorded when there is reasonable assurance of realization.

Financial instruments

Financial instruments are contracts that give rise to a financial asset or a financial liability. Financial assets and liabilities are recognized on the consolidated balance sheet at fair value and their subsequent measurement depends on their classification, as described in Note 14. Classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments.

The accounting policy the Company has elected to apply to each of its categories of financial instruments is as follows:

Assets and liabilities	Category	Measurement
Cash and cash equivalents	Held for trading	Fair value
Trade accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

1. Summary of Significant Accounting Policies (continued)

The amortized cost is established using the effective interest method. The Company has elected to account for transaction costs related to the issuance of the financial instruments as a reduction of the carrying value of the related financial instruments. The credit facility includes revolving credit, a term loan and standby letter of credit. The costs related to the issuance of these financial instruments are presented as a reduction of the financial instrument it relates to. Transaction costs are amortized using the straight-line method over the expected life of the facilities.

Derivative instruments

The Company enters into derivative instruments, namely forward exchange contracts to manage risk against the fluctuations in foreign exchange rates. These instruments are carried at fair value at each balance sheet date. Short-term and long-term derivative assets have been included as part of accounts receivable and other assets, respectively. Short-term and long-term derivative liabilities have been included as part of accounts payable and accrued liabilities, and deferred gains and other long-term liabilities, respectively.

Hedging

Cash flow hedges

Derivative financial instruments designated as cash flow hedges are measured at fair value. The effective portion of the change in fair value of the derivative financial instruments is recorded in other comprehensive income, while the ineffective portion, if any, is recognized in net income.

Cash flow hedges related to the purchase of raw materials

The Company also designated as cash flow hedges a portion of its cash denominated in US dollar for future purchase of raw materials. The designated cash denominated in US dollar is accounted for at fair value in the Company's balance sheet. Foreign exchange gain or loss on this designated in US cash and cash equivalents is recorded in other comprehensive income. When raw material is purchased, the foreign exchange gain or loss is accounted as part of the cost of the raw material in the inventory.

Futures changes in accounting policies

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that all publicly accountable enterprises would be required to report under IFRS for fiscal years beginning on or after January 1, 2011. The Company will apply IFRS commencing June 1, 2011. It will present its consolidated financial statements for the quarter ending August 31, 2011 prepared on an IFRS basis and will present comparatives for the year commencing June 1, 2010.

The Company is currently evaluating the impact of adopting IFRS on its information technology systems, education and training requirements, internal control over financial reporting and impact of business activities. The Company is unable to quantify how the transition to IFRS will impact its consolidated financial statements, but believes that the impact could be significant. In the periods preceeding the first fiscal year in which IFRS will be applied, the impacts of the transition to IFRS on the Company's consolidated financial statements will be disclosed as they become known.

Business combination and Consolidated Financial Statements

In January 2009, the CICA approved three new accounting standards Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests".

Section 1582 replaces former Section 1581 "Business Combinations" and establishes standards for the accounting of a business combination. Section 1582 provides the Canadian equivalent to IFRS 3—"Business Combinations. Section 1582 requires additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure for the accounting of a business combination and that acquisition costs will be recognized as expenses.

1. Summary of Significant Accounting Policies (continued)

Sections 1601 and 1602 replace former Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602, which converges with the requirements of International Accounting Standard 27 ("IAS 27"), "Consolidated and Separate Financial Statements", establishes standards for accounting of a non-controlling interest resulting from a business acquisition, recognized as a distinct component of shareholders' equity. Net income will present the allocation between the controlling and non-controlling interests.

All these standards are effective at the same time Canadian public companies will have adopted IFRS, for fiscal year beginning on or after January 1, 2011 but early adoption is permitted. As of today, we have not evaluated the impact of these new standards.

2. Accounts Receivable

As at May 31	2010	2009
	$	$
Trade accounts receivable	**3,913,429**	3,826,686
Commodity taxes	**416,031**	417,073
Other	**470,000**	39,508
Grant receivable	**–**	2,518,930
Allowance for doubtful accounts	**(25,000)**	(100,000)
	4,774,460	6,702,197

Chronological history of trade accounts receivable:

As at May 31	2010	2009
	$	$
Current	**3,757,582**	3,327,781
0 to 30 days overdue	**25,453**	301,225
31 to 60 days overdue	**52,989**	1,915
61 to 120 days overdue	**77,405**	195,765
	3,913,429	3,826,686

3. Inventories

As at May 31	2010	2009
	$	$
Raw materials	**15,634,041**	18,183,623
Finished goods and work in process	**12,071,108**	8,871,337
	27,705,149	27,054,960

4. Property, Plant and Equipment

As at May 31			2010			2009
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
	$	$	$	$	$	$
Land	998,715	–	998,715	534,632	–	534,632
Buildings	11,176,387	1,209,335	9,967,052	11,425,865	824,312	10,601,553
Leasehold improvements	1,697,888	433,667	1,264,221	1,545,668	335,958	1,209,710
Production equipment	19,716,633	5,877,203	13,839,430	17,266,938	4,259,315	13,007,623
Rolling stock	9,677	2,296	7,381	47,441	39,093	8,348
Furniture and office equipment	263,033	80,271	182,762	278,802	89,995	188,807
Computer equipment	448,855	271,114	177,741	493,892	221,092	272,800
	34,311,188	7,873,886	26,437,302	31,593,238	5,769,765	25,823,473

Depreciation expense on property, plant and equipment presented in the consolidated statement of income are related to the following activities:

Years ended May 31	2010	2009
	$	$
Cost of goods sold	2,364,629	2,002,747
Administrative expenses	166,713	145,141
Research and development expenses	13,200	6,664
	2,544,542	2,154,552

5. Intangible Assets

As at May 31			2010
	Cost	Accumulated amortization	Net book value
	$	$	$
Software	604,208	120,499	483,709
Intellectual property	1,354,954	67,750	1,287,204
	1,959,162	188,249	1,770,913

As at May 31			2009
	Cost	Accumulated amortization	Net book value
	$	$	$
Software[1]	354,950	–	354,950
	354,950	–	354,950

[1] Under development in 2009

6. Business Acquisition

Firebird Technologies Inc.

On December 1st, 2009, the Company acquired Firebird Technologies Inc. ("Firebird") for an amount of $7,912,055 including acquisition costs of $61,078. Firebird is a manufacturer of pure metals and semiconductor compounds. Firebird's main products include indium antimonide wafers as well as purified metals such as antimony, indium and tin, sold worldwide and used in a number of electronic and optical applications.

The Company has accounted for this transaction using the purchase method. The results of Firebird have been consolidated in the Company's consolidated financial statements starting December 1, 2009. The purchase price was allocated to the net identifiable assets acquired and liabilities assumed based on their estimated fair values as follows:

	$
Cash and cash equivalents	164,058
Accounts receivable	424,958
Prepaid expenses and deposits	226,742
Inventories	1,229,535
Property, plant and equipment	1,521,520
Intangible assets	1,354,954
Accounts payable and accrued liabilities	(16,443)
Long-term debt	(858,152)
Future income taxes	(516,879)
Net assets of business acquired	3,530,293
Goodwill	4,381,762
Total purchase price	7,912,055
Less: cash and cash equivalents at acquisition	164,058
Cash consideration paid for the acquisition of a business presented on consolidated statements of cash flows	7,747,997

7. Bank Loan

On November 30, 2009, the Company renewed its credit facility which consists of a $7,500,000 revolving facility, a $10,000,000 term facility and a $7,500,000 credit letter. With the exception of a €540,000 letter of credit (note 10) this facility was undrawn as at May 31, 2010.

The revolving facility is available for general corporate purposes. The term facility is used for financing capital projects and requires equal quarterly capital repayments based on a seven year amortization schedule. This agreement also includes an accordion feature allowing the Company to have access to an additional amount of $5,000,000.

8. Accounts payable and accrued liabilities

As at May 31	**2010**	2009
	$	$
Trade accounts payable and accrued liabilities	**3,564,152**	5,336,843
Salaries and vacations	**1,082,068**	1,324,469
Commodity taxes	**–**	130,363
	4,646,220	6,791,675

9. Long-Term Debt

As at May 31	2010	2009
	$	$
Term loan, lender's floating rate less 1.40%, monthly repayment of $41,667, principal only, maturing in June 2018, secured by a building.	**3,997,883**	4,497,923
Term loan, bearing no interest, repayment of 2.6% of sales in excess of $1,200,000 of the subsidiary Firebird , maturing in 2023. If the loan has not been repaid in full by the end of 2023, the remaining balance will be forgiven.	**772,740**	–
Loan from a supplier, bearing no interest and repayable in instalments of US$20 per kilogram of germanium purchased by Firebird, maturing no later than July 31, 2010.	**50,000**	–
Loan, effective interest rate of 5%, repaid in April 2010.	**–**	49,922
	4,820,623	4,547,845
Current portion of long-term debt	**(622,820)**	(549,922)
	4,197,803	3,997,923

Principal repayments of the long-term debt over the forthcoming years are as follows:

	$
2011	622,820
2012	655,000
2013	850,000
2014	694,920
2015	500,000
Thereafter	1,497,883
Total principal payments on long-term debt	4,820,623

The term loan contains restrictive covenants that require the Company to maintain financial ratios. As at May 31, 2010 these restrictive covenants were respected.

10. Deferred Revenue

Deferred revenues partially consist of amounts billed to clients in excess of revenue recognized according to the corresponding revenue recognition method.

In 2008, the wholly-owned German subsidiary 5N PV GmbH, received €540,000 from a German company in support of job creation. This deferred revenue is amortized according to each job created over a period of three years. Under the terms of the agreement, a letter of credit of €540,000 (approximately $694,000) was issued to the German company, should 5N PV be unable to fulfill its commitment. An amount of €115,416 was recognized as revenue in 2010 and €102 083 in 2009 (approximately $173,000 and $163,000 respectively).

11. Share Capital

Authorized

An unlimited number of common shares, participating, with no par value, entitling the holder to one vote per share.

An unlimited number of preferred shares may be issued in one or more series with specific terms, privileges and restrictions to be determined for each class by the Board of Directors.

A) Issued and fully paid

	Number	$
Common shares		
Outstanding as at May 31, 2008	45,500,000	81,788,694
Shares issued under stock option plan	20,225	93,220
Outstanding as at May 31, 2009	45,520,225	81,881,914
Shares issued under stock option plan	107,225	507,956
Outstanding as at May 31, 2010	**45,627,450**	**82,389,870**

B) Stock option plan

In October 2007, the Company adopted a Stock Option Plan ("the Plan") for directors, officers and employees. The aggregate number of shares which may be issued upon the exercise of options granted under the Plan may not exceed 10% of the issued shares of the Company at the time of granting the options. Options granted under the Plan may be exercised during a period not exceeding ten years from the date of the grant. The stock options outstanding as at May 31, 2010 may be exercised during a period not exceeding six years from their date of grant. Options vest at a rate of 25% (100% for directors) per year, beginning one year following the grant date of the options.

The following table presents the weighted average assumptions used to establish the stock option compensation cost, using the Black-Scholes option price model:

As at May 31	**2010**	2009
Expected stock price volatility	**40%**	68%
Dividend	**None**	None
Risk-free interest rate	**2.325%**	2.50%
Risk-free interest rate (directors)	**2.325%**	2.25%
Expected option life	**4 years**	3.5 years
Expected option life (directors)	**4 years**	1 year
Fair value–weighted average of options issued	**1.89**	2.46

As at May 31	**2010**		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$
Beginning of period	**1,439,055**	**3.78**	1,032,500	3.00
Granted	**436,500**	**5.38**	466,430	5.42
Cancelled	**(171,715)**	**4.00**	(39,650)	3.00
Exercised	**(107,225)**	**3.09**	(20,225)	3.00
End of period	**1,596,615**	**4.24**	1,439,055	3.78

Stock-based compensation cost is allocated as follows:

Years ended May 31	**2010**	2009
	$	$
Cost of goods sold	**250,695**	133,276
Selling and administrative	**351,949**	370,254
Research and development expense	**148,235**	84,679
	750,879	588,209

12. Income Taxes

The following table presents the reconciliation between the income tax expense calculated using statutory Canadian tax rates to the effective income tax expense in the Company's consolidated statements of income.

Years ended May 31	2010		2009	
		$		$
Income tax expense at statutory tax rates	**6,601,189**	**30.5%**	9,268,998	30.9%
Increase (decrease) resulting from:				
Non-deductible expenses for tax purposes	**112,365**	**0.5%**	217,935	0.7%
Non-taxable research and development tax credits	**(17,942)**	**-0.1%**	(83,221)	-0.3%
Effect of difference of foreign tax rates compared to Canadian tax rates	**(26,840)**	**-0.1%**	(112,232)	-0.4%
Adjustments of preceding taxation years and others	**(156,768)**	**-0.7%**	(162,846)	-0.5%
	6,512,004	**30.1%**	9,128,634	30.4%

Significant components of the Company's future income tax assets and liabilities were as follows:

As at May 31	2010	2009
	$	$
Future income tax assets		
Inventory	**431,869**	249,958
Property, plant and equipment	**995,086**	662,639
Share issue expenses and professional fees	**1,034,834**	1,051,210
Others	**–**	62,586
	2,461,789	2,026,393
Future income tax liabilities		
Property, plant and equipment	**(1,971,788)**	(1,263,303)
Intangible assets	**(359,074)**	–
Non-taxable research and development tax credits	**(102,584)**	(93,380)
Unrealized foreign exchange gain	**(35,174)**	(512,710)
Other	**(309,904)**	–
	(2,778,524)	(1,869,393)
Net future income tax (liabilities) assets	**(316,735)**	157,000

Future income taxes are classified as follows:

As at May 31	2010	2009
	$	$
Current future income tax assets	**150,598**	249,958
Long-term future income tax assets	**2,311,191**	662,639
Current future income tax liabilities	**(444,662)**	(311,897)
Long-term future income tax liabilities	**(2,333,862)**	(443,700)
Net future income taxes	**(316,735)**	157,000

13. Cost of Sales

The following table presents the inventories recognized as cost of sales:

Years ended May 31	2010	2009
	$	$
Cost of sales	38,910,641	34,174,231
Depreciation of property, plant and equipment related to the transformation of inventories	2,364,629	2,002,747
	41,275,270	36,176,978

14. Financial Instruments

Fair value of financial instruments

All financial assets classified as held-to-maturity or loans and receivables, as well as financial liabilities classified as other liabilities, are initially measured at their fair values and subsequently at their amortized cost using the effective interest rate method. All financial assets and liabilities classified as held for trading are measured at their fair values. Gains and losses related to periodic revaluations are recorded in net earnings.

The Company has determined that the carrying value of its short-term financial assets and liabilities, including cash and cash equivalents, accounts receivable and other receivable, as well as accounts payable and accrued liabilities, approximates their carrying value due to the short-term maturities of these instruments.

As at May 31, 2010, the fair value of the long-term debt is $4,820,623 ($4,547,845 as at May 31, 2009) and is calculated using the present value of future cash flows at year-end rates for similar debt with same terms and maturities.

The fair value of financial assets by level of hierarchy was as follows as at May 31, 2010:

	Level 1	Level 2	Level 3	Total financial assets
	$	$	$	$
Cash and cash equivalents	67,992,321	–	–	67,992,321
Derivative financial instruments[1]	–	1,362,804	–	1,362,804
	67,992,321	1,362,804	–	69,355,125

[1] Derivative financial instruments consist of forward exchange contracts.

Financial Risk Management

In the normal course of its operations, the Company is exposed to credit risk, liquidity and funding risk, interest rate risk as well as currency risk. Management analyses these risks and implements strategies in order to minimize their impact on the Company's performance.

Credit risk and significant customers

The Company has a conservative approach with regard to the management of its cash and cash equivalents. Its investment policy requires the funds to be entirely guaranteed by the financial institution and to be allocated amongst three recognized financial institutions.

The Company is exposed to credit risk that is mainly associated with its accounts receivable, arising from its normal commercial activities. The Company considers its credit risk to be limited for the following reasons:

a) The Canadian Company concluded an agreement with Export Development Canada under which it will assume a portion of losses for certain export clients in case of non-payment, for an annual amount up to a maximum of $1,500,000;

b) The Company does not require additional guarantee or other securities from its clients in regard to its accounts receivable. However, credit is granted only to clients after a credit analysis is performed. The Company conducts ongoing evaluation of its clients and establishes provisions for doubtful accounts should an account be considered non recoverable;

14. Financial Instruments (continued)

c) One customer represented approximately 74% (78% in 2009) of the sales in the fiscal year 2010 and 33% of accounts receivable as of May 31, 2010 (79% in 2009).

Liquidity and financing risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. One of management's primary goals is to maintain an optimal level of liquidity through the active management of its assets and liabilities as well as the cash flows.

As at May 31, 2010, the Company's cash and cash equivalents amounted to $67,992,321 ($65,066,530 as at May 31, 2009). The Company also has available up to $30,000,000 in credit facility (Note 7). Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

The contractual maturities of financial liabilities as at May 31, 2010 are as follows:

	Carrying Amount	Contractual Cash Flows	0 to 6 months	6 to 12 months	12 to 24 months	After 24 months
	$	$	$	$	$	$
Accounts payable and accrued liabilities	**4,646,220**	**4,646,220**	**4,352,930**	**293,290**	**–**	**–**
Long-term debt	**4,820,623**	**5,532,850**	**379,713**	**515,515**	**1,072,404**	**3,565,218**
	9,466,843	**10,179,070**	**4,732,643**	**808,805**	**1,072,404**	**3,565,218**

Contractual cash flows include interest charges.

Interest rate risk

The Company's level of debt is currently low and bears interest at floating rate. Should its indebtedness increase, the Company's policy would be to limit its exposure to interest rate risk variations by ensuring that a reasonable portion of its debt is at fixed rates.

Interest revenue on cash and cash equivalents are at variable rate. For each $10,000,000 in cash and cash equivalents, a fluctuation in interest rate of 0.50% would annually impact interest income by $50,000. Therefore, management believes that the impact on net earnings would not be significant on its operating results.

Price risk

The Company is exposed to metals' market price fluctuation risk. This risk is managed adequately by forecasting and scheduling the acquisition of inventories to meet its customers contractual obligations. Financial instruments do not expose the Company to raw material price risk.

Exchange risk

The Company is exposed to risk from changes in foreign currency rates on sales of Canadian-made products in US dollars and in Euros. The Company mitigates this risk principally through forward contracts and by the natural hedging provided by purchasing raw materials in US dollars.

On September 25, 2009, the Company concluded a €10,500,000 foreign exchange forward contract (€500,000 per month) to hedge its sales made by its German subsidiary 5N PV. This foreign exchange forward contract was effective from October 1, 2009 to June 30, 2011, at an average conversion rate of 1.6.

On January 13, 2010, the Company terminated prior to maturity this foreign exchange forward contract for cash proceeds of $800,000. The effective portion of gain was recorded under accumulated other comprehensive income and is amortized through earnings as if the previously hedged transactions occur. The ineffective portion of the gain was accounted for in the consolidated statement of income.

14. Financial Instruments (continued)

On January 13, 2010, the Company concluded a €8,500,000 foreign exchange forward contract (€500,000 per month) to hedge its sales made by its German subsidiary 5N PV. This foreign exchange forward contract is effective from January 13, 2010 until May 31, 2011, at an average exchange rate of 1.4975. The fair value of the foreign exchange forward contract is $1,246,462 as at May 31, 2010, and was accounted for in the consolidated statements of income.

On May 25, 2010, the Company concluded a US$4,500,000 foreign exchange forward contract (US$750,000 per month) to hedge a portion of its US dollar sales. This foreign exchange forward contract will be effective from June 1, 2010 to November 30, 2010 at an average conversion rate of 1.07. The fair value of the foreign exchange forward contract is $116,342 as at May 31, 2010. This contract has been designated as cash flow hedges and the change in its fair value was recorded in the consolidated statement of comprehensive income.

The Company designated as cash flow hedges a portion of its cash denominated in US dollar for future purchase of raw materials until April 2011. The designated cash denominated in US dollar is accounted for at fair value in the Company's balance sheet. Foreign exchange gain or loss on the designated US cash and cash equivalents is recorded in other comprehensive income. When raw material is purchased which is anticipated to be recorded in the next twelve months, the foreign exchange gain or loss is accounted for as part of raw material in the inventory. The amount of US cash and cash equivalents designated under this strategy amounted to $28,075,353 as at May 31, 2010. Foreign exchange gains related to this cash and cash equivalents included in comprehensive income amounted to $1,208,826 as at May 31, 2010.

The Company had the following exposure on May 31, 2010:

	US$	€
Financial assets and liabilities measured at amortized costs [1]:		
Cash and cash equivalents [2]	10,544,970	608,564
Accounts receivable	3,019,111	1,100
Receivable from the wholly-owned subsidiary	–	3,477,716
Accounts payable and accrued liabilities	(867,238)	(4,349)
Total exposure from above	12,696,843	4,083,031

[1] Amounts above do not include the wholly-owned subsidiary account balances as it is using the Euro as functional currency. However, intercompany account balances in Euros are included in these amounts.

[2] US$28,075,353 designated for future purchases of raw materials not included.

Scenario of the Canadian dollar exchange rate fluctuation with regard to gross amount at risk:

	CA$/US$	CA$/€
Exchange rate as at May 31, 2010	1.046	1.284
Impact on net earnings based on a fluctuation of five cents in the Canadian dollar exchange rate	458,943	181,175

15. Foreign Exchange Gain

Years ended May 31	2010	2009
	$	$
Foreign exchange loss (gain) related to operations	194,296	(1,523,887)
Realized foreign exchange gain on derivative financial instruments	(131,812)	(232,625)
Unrealized foreign exchange gain on derivative financial instruments	(1,246,462)	(1,685,076)
a) Included in the consolidated statement of income	(1,183,978)	(3,441,588)

15. Foreign Exchange Gain (continued)

Years ended May 31	2010	2009
	$	$
Realized foreign exchange gain on designated derivative financial instruments	(491,110)	–
Realized foreign exchange gain on cash designated	(1,208,826)	–
Unrealized foreign exchange gain on derivative financial instruments	(116,342)	–
	(1,816,278)	–
Income tax on the above	561,230	–
b) Included in the consolidated statement of comprehensive income	(1,255,048)	–

As at May 31	2010	2009
	$	$
c) Reported in the consolidated balance sheet	1,362,804	1,685,076

16. Financial expenses

Years ended May 31	2010	2009
	$	$
Interest and banking fees	50,964	112,560
Interest on long-term debt	134,548	195,732
Amortization of other assets	–	69,157
	185,512	377,449

17. Capital Management

The Company's objectives when managing its capital are:

- To optimize its capital structure in order to reduce costs and strengthen its ability to seize strategic opportunities;
- To ensure that operations remain competitive and stable and to sustain future development of the Company, including research and development activities, expansion of existing facilities or construction of new facilities and potential acquisitions of complementary businesses or products and;
- To provide the Company's shareholders an appropriate return on their investment.

The Company defines its capital as its shareholders' equity.

The capital of the Company amounted to $125,678,537 as at May 31, 2010 and $112,368,764 as at May 31, 2009. The increase reflects principally the current year's net earnings.

18. Government Assistance

During the years ended May 31, 2010 and 2009, the Company recorded research and development tax credits amounting to $478,755 and $423,603 respectively. These tax credits are subject to review and approval of taxation authorities.

19. Commitments

a) The Company rents certain premises and equipment under the terms of operating leases. The maturity of the premises leases ranges from May 2011 to May 2017 with options to extend, and for the equipment in June 2013. The rental expenses related to operating leases for the year ended May 31, 2010 were $758,187.

19. Commitments (continued)

Future minimum payments excluding operating costs for the next years are as follows:

	$
2011	910,453
2012	827,377
2013	748,021
2014	476,371
2015 and thereafter	970,104

b) As at May 31, 2010, the Company had placed orders in the amount of $55,535 ($239,321 in 2009) with suppliers for the purchase of fixed assets.

c) The Company's German subsidiary is committed to a number of conditions in its supply agreement with its client First Solar. These conditions include minimum quantities of products to be sold and certain recycling obligations. Should the subsidiary be unable to fulfill these conditions within prescribed time frame, the Company could be forced to transfer its ownership of the German facility to First Solar for a consideration approximating the Company's acquisition cost.

20. Earnings Per Share

Years ended May 31	2010	2009
	$	$
Numerator		
Net earnings from continuing operations	**15,143,310**	20,868,124
Net earnings	**14,647,540**	20,868,124
Denominator		
Weighted average number of common shares	**45,578,992**	45,505,213
Effect of dilutive securities		
Stock options	**254,299**	370,909
	45,833,291	45,876,122
Earnings per share from continuing operations		
Basic	**0.33**	0.46
Diluted	**0.33**	0.45
Earnings per share		
Basic	**0.32**	0.46
Diluted	**0.32**	0.45

21. Segment Information

The Company has only one reportable segment, namely the refining and recycling of metals.

Geographical information

Years ended May 31	2010	2009
	$	$
Sales to customers located in the following geographical areas:		
United States	**47,393,186**	40,559,556
Europe	**18,969,244**	20,774,725
Asia	**3,654,303**	6,431,033
Canada	**669,354**	1,591,612
Other countries	**77,258**	16,191
	70,763,345	69,373,117

21. Segment Information (continued)

Sales are geographically allocated based on the customer's country of origin with whom the agreement has been signed.

As at May 31	2010	2009
	$	$
Property, plant and equipment and intangible assets in the following countries:		
Canada	**22,695,350**	13,424,454
Germany	**9,894,627**	12,753,969
	32,589,977	26,178,423

22. Discontinued Operation

On September 1, 2009, the Company had established a joint venture called ZT Plus with BSST, a subsidiary of Amerigon Incorporated. The Company had a 50% ownership interest in ZT Plus. The contribution of each partner in cash or in kind was expected to be US$5,500,000. ZT Plus was accounted for using the proportionate consolidation method. On March 26, 2010, the commercial progress of ZT Plus was slower to develop than anticipated and the Company sold its interest for an amount of US$1,600,000 ($1,632,000). This sale was classified as a discontinued operation.

Loss of discontinued operation	2010
	$
Revenues	–
Research and development expenses	**886,997**
Loss before income tax	**886,997**
Recovery of income taxes	**(545,110)**
Net loss	**341,887**
Loss on sale net of tax of $133,963	**153,883**
Net loss from discontinued operation	**495,770**

23. Subsequent Event

On June 18, 2010, the Company acquired, for an amount of US$3,000,000 (approximately $3,072,000), a convertible note of Sylarus Technologies, LLC ("Sylarus") a leading producer of germanium substrates for solar cells located in Saint George, Utah. This convertible note bears interest at 6% annually and is repayable on May 31, 2015 at the latest. This note, including accrued interest, is convertible into 18% of voting and participating units of Sylarus. The Company has the possibility, until September 30, 2011, to subscribe to additional convertible notes for a maximum amount of US$4,000,000 (approximately $4,185,000) which would bear interest at the same rate and with the same maturity as the initial note convertible and can be converted into 15% of additional voting and participating units of Sylarus. Concurrently, 5N Plus and Sylarus have also entered into a long-term supply and recycling agreement under which 5N Plus will provide high-purity germanium feedstock to Sylarus and will recycle various germanium containing residues.

24. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current period.