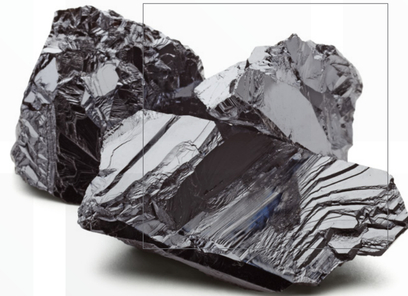
2012 Management Report



This Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations is intended to assist readers in understanding 5N Plus Inc. (the "Company"), its business environment, strategies, performance and risk factors. This MD&A should be read in conjunction with the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2012. The Company's audited consolidated financial statements for the year ended December 31, 2012, have been prepared in compliance with International Financial Reporting Standards ("IFRS") as defined in the Handbook of the Canadian Institute of Chartered Accountants and adopted by the International Accounting Standards Board ("IASB").

The "Q4 2012" and the "Q4 2011" refer to the three-month periods ended December 31, 2012 and 2011, respectively. All amounts in this MD&A are expressed in U.S. dollars, and all amounts in the tables are in thousands of U.S. dollars, unless otherwise indicated. All quarterly information disclosed in this MD&A is based on unaudited figures.

Information contained herein includes any significant developments to March 28, 2013, the date on which the MD&A was approved by the Company's board of directors. Unless otherwise indicated, the terms "we", "us" and "our" "the group" as used herein refer to the Company together with its subsidiaries.

Change in Year-End

On August 24, 2011, the Company changed its financial year-end date from May 31 to December 31. As a result, the year ended December 31, 2011 comprises seven months.

Non-IFRS Measures

This MD&A also includes certain figures that are not performance measures consistent with IFRS. These measures are defined at the end of this MD&A under the heading Non-IFRS Measures.

Notice Regarding Forward-Looking Statements

Certain statements in this MD&A may be forward-looking within the meaning of applicable securities laws. Forward-looking information and statements are based on the best estimates available to the Company at the time and involve known and unknown risks, uncertainties or other factors that may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors of uncertainty and risk that might result in such differences include the risks related to the possible failure to realize anticipated benefits of acquisitions, additional indebtedness, inventory pricing, commodity pricing, legal proceedings, source of supply, environmental regulations, competition, dependence on key personnel, business interruptions, protection of intellectual property, international operations, collective agreements and being a public issuer. A description of the risks affecting the Company's business and activities appears under the heading "Risks and Uncertainties" of this MD&A. Forward-looking statements can generally be identified by the use of terms such as "may", "should", "would", "believe", "expect", the negative of these terms, variations of them or any similar terms. No assurance can be given that any events anticipated by the forward-looking information in this MD&A will transpire or occur, or if any of them do so, what benefits that 5N Plus will derive therefrom. In particular, no assurance can be given as to the future financial performance of 5N Plus. The forward-looking information contained in this MD&A is made as of the date hereof and the Company has no obligation to publicly update such forward-looking information to reflect new information, subsequent or otherwise, unless required by applicable securities laws. The reader is warned against placing undue reliance on these forward-looking statements.

Corporate Overview and Business

5N Plus is the leading producer of specialty metal and chemical products. Fully integrated with closed-loop recycling facilities, the Company is headquartered in Montreal, Quebec, Canada and operates manufacturing facilities and sales offices in several locations in Europe, Americas and Asia. 5N Plus deploys a range of proprietary and proven technologies to produce products which are used in a number of advanced pharmaceutical, electronic and industrial applications. Typical products include purified metals such as bismuth, gallium, germanium, indium, selenium and tellurium, inorganic chemicals based on such metals and compound semiconductor wafers. Many of these are critical precursors and key enablers in markets such as solar, light-emitting diodes and eco-friendly materials.

Reportable Segments

The Company has two reportable segments, namely Electronic Materials and Eco-Friendly Materials. Corresponding operations and activities are managed accordingly by the Company's key decision makers. Segmented operating and financial information, labelled key performance indicators, are available and used to manage these business segments, review performance and allocate resources. Financial performance of any given segment is evaluated primarily in terms of revenues and segment adjusted EBITDA which is reconciled to consolidated numbers by taking into account corporate income and expenses.

The Electronic Materials segment is headed by a Vice President who oversees locally managed operations in the Americas, Europe and Asia. The Electronic Materials segment manufactures and sells refined metals, compounds and alloys which are primarily used in a number of electronic applications. Typical end-markets include photovoltaics (solar energy), light emitting diodes (LED), displays, high-frequency electronics, medical imaging and thermoelectrics. Main products are associated with the following metals: cadmium, gallium, germanium, indium and tellurium. These are sold either in elemental or alloyed form as well as in the form of chemicals and compounds. Revenues and earnings associated with recycling services and activities provided to customers of the Electronic Materials segment are also included in the Electronic Materials segment and management of such activities is also the responsibility of the Electronic Materials Vice President.

The Eco-Friendly Materials segment is so labelled because it is mainly associated with bismuth, one of the very few heavy metals which have no detrimental effect on either human health or in the environment. As a result, bismuth is being increasingly used in a number of applications as a replacement for more harmful metals and chemicals. The Eco-Friendly Materials segment is headed by a Vice President who oversees locally managed operations in Europe and China. The Eco-Friendly Materials segment manufactures and sells refined bismuth and bismuth chemicals, low melting point alloys as well as refined selenium and selenium chemicals. These are used in the pharmaceutical and animal-feed industry as well as in a number of industrial applications including coatings, pigments, metallurgical alloys and electronics.

Corporate expenses associated with the head office and unallocated selling, general and administrative expenses together with financing costs, gains and/or losses on foreign exchange and derivatives have been regrouped under the heading Corporate. The head office is also responsible for managing businesses which are still in the development stage and corresponding costs are netted of any revenues.

Highlights of Q4 2012 and Fiscal Year 2012

- Generated strong cash flow from operating activities of $101.8 million in 2012. Net debt amounted to $136.6 million on December 31, 2012 compared to $260.6 million on December 31, 2011 and decreased by $4.0 million in Q4 2012 and by $124.0 million during 2012. Total debt amounted to $148.4 million on December 31, 2012 compared to $341.9 million on December 31, 2011 and decreased by $1.4 million in Q4 2012 and by $193.5 million in 2012.

- Adjusted EBITDA for Q4 2012 was $6.4 million, a 10.4% decrease over Adjusted EBITDA of $7.1 million for Q4 2011. Adjusted EBITDA in 2012 was $37.9 million compared to $37.4 million for the seven-month period ended December 31, 2011.

- The Company recorded in Q4 2012 goodwill and other non-current asset impairment charges of $204.8 million due to longer-than-anticipated pricing softness in minor metals and a significant reduction in the market capitalization of the Company. This resulted in a net loss of $212.0 million in the quarter and a net loss of $227.8 million for 2012. This compares with net losses of $37.2 million and $22.5 million for the quarter and seven-month period ended December 31, 2011. Excluding impairment charges and reversals, restructuring costs and acquisition costs net of the related income tax, adjusted net earnings resulted in a loss of $6.9 million in Q4 2012 of $2.9 million in 2012 which compares to adjusted net earnings (loss) of ($0.1) million and $16.5 million for the quarter and seven-month period ended December 31, 2011.

- Revenues for Q4 2012 were $128.6 million, a 13.9% decrease over revenues of $149.4 million for Q4 2011. Revenues for 2012 increased to $551.7 million representing a 40.8% increase over revenues of $391.7 million for the seven-month period ended December 31, 2011.

- As at December 31, 2012, the backlog of orders expected to translate into sales over the following twelve months stood at $165.8 million compared to $162.3 million as at September 30, 2012 and to $223.2 million a year ago.

- On June 6, 2012, the Company issued 6,452,000 stock units for gross proceeds of CA$20.0 million. The offering was made by way of short form prospectus filed with the securities commissions of each of the provinces of Canada. In a concurrent private placement, the Company issued and sold a further 6,451,613 units to Investissement Québec for gross proceeds of CA$20.0 million.

- On November 15, 2012, the Company announced that its new Malaysian recycling facility was operational and completed under budget. The facility is located within the Kulim High Technology Park, one of Malaysia's highest profile industrial areas for technological firms.

- The Company amended its senior secured multi-currency revolving credit facility under which the facility will be reduced to $100 million starting March 31, 2013 and could, at any time, be expanded to $140 million at the Company's request through the exercise of an additional $40 million accordion feature, subject to review and approval by the lenders.

Despite the very challenging business environment in which it operated throughout the quarter and the year, the Company managed to maintain market share and generate significant cash flow enabling a sizeable reduction in debt. The Company also achieved commercial, technical and operational milestones including the completion of its Malaysian facility, breakthroughs at its Sylarus subsidiary, relocation of its Fairfield operations to Wisconsin and further penetration of the Asian market.

Revenues, backlog and profitability were all negatively impacted in the quarter and the year by low underlying commodity prices which caused the Company to record significant write-downs in the value of its inventories, non-current assets and goodwill, the latter having now been completely written off. Headwinds related to continuing concerns over European demand, the slowdown in the global economy and the structural changes in the solar industry continued to weigh on the Company's performance. This was further exacerbated by the difficulties encountered with the integration of the former MCP activities leading to the departure of some senior executives from the former management team and the dispute which followed related to some of the seller's representations and warranties made at the time of the purchase.

On the positive side, the amendment of its credit facility provides the Company with the required financing flexibility for 2013 and better fits its current financing needs. The Company is now better aligned and intends to gradually redeploy capital into higher value opportunities and recycling with a strong focus on increasing commercial dealings in Asia. The Company also intends to leverage its dominant market share and take advantage of what it believes will be a more favorable underlying commodity pricing environment in the coming year.

Recognising that 2013 will be a year of transition, the Company has established a plan for improving efficiency which includes the closure of the Trail operations and the relocation of all corresponding activities and more generally significant cost reduction efforts throughout the group. At the same time the Company also intends to further develop its Asian footprint in Korea as previously announced. These measures together with the continuing support from the Company's financial institutions should enable it to be very well positioned to take advantage of growth opportunities beyond the current year.

The Company therefore continues to remain cautiously optimistic and is confident on its ability to weather the current challenges. 5N Plus would also like to thank its employees which have unfortunately been negatively impacted by the current cost reduction measures and efficiency improvement plan for their past contribution, and all others for their commitment and confidence as the Company strives to become a better and stronger organization in a changing business environment to which it must adapt.

Selected Yearly Financial Information

	12 months December 31, 2012	7 months ended December 31, 2011	12 months ended May 31, 2011
	$	$	$
Consolidated Results			
Revenues	**551,675**	391,712	179,995
EBITDA[1]	**(12,729)**	2,625	28,723
Adjusted EBITDA[1]	**37,856**	37,415	28,723
Net earnings (loss) attributable to equity holders of 5N Plus	**(227,738)**	(21,641)	22,928
Basic earnings (loss) per share attributable to equity holders of 5N Plus	**($2.91)**	($0.31)	$0.45
Net earnings (loss)	**(227,849)**	(22,464)	21,948
Basic earnings (loss) per share	**($2.91)**	($0.32)	$0.45
Diluted earnings (loss) per share	**($2.91)**	($0.32)	$0.44
Funds from operations[1]	**25,393**	27,338	26,477
Statement of Financial Position Data			
Total assets	**383,978**	782,344	807,557
Net debt[1]	**136,547**	260,575	241,210
Shareholders' equity	**148,470**	339,710	363,990

Selected Quarterly Financial Information

	2012				December 31, 2011		May 31, 2011	
	Q4	**Q3**	**Q2**	**Q1**	Q2	**Q1 (4 months)**	Q4	Q3
	$	**$**	**$**	**$**	$	$	$	$
Revenues	**128,620**	**120,744**	**140,076**	**162,235**	149,423	242,289	121,976	20,663
Gross profit[1]	**(5,599)**	**17,898**	**(10,859)**	**29,988**	(8,674)	42,857	25,001	8,104
Adjusted gross profit[1]	**18,918**	**17,898**	**15,209**	**29,988**	24,739	44,233	25,001	8,104
EBITDA[1]	**(18,121)**	**9,001**	**(20,474)**	**16,867**	(26,278)	28,904	19,995	6,001
Adjusted EBITDA[1]	**6,395**	**9,001**	**5,594**	**16,867**	7,135	30,281	19,995	6,001
Net earnings (loss)	**(211,953)**	**1,275**	**(22,062)**	**4,891**	(37,397)	14,933	8,174	5,551
Basic earnings (loss) per share	**($2.70)**	**$0.02**	**($0.30)**	**$0.07**	($0.53)	$0.21	$0.14	$0.12
Diluted earnings (loss) per share	**($2.70)**	**$0.02**	**($0.30)**	**$0.07**	($0.53)	$0.21	$0.14	$0.12
Net earnings (loss) attributable to equity holders of 5N Plus	**(212,006)**	**1,218**	**(21,922)**	**4,972**	(37,206)	15,565	8,549	5,526
Basic earnings (loss) per share attributable to equity holders of 5N Plus	**($2.71)**	**$0.02**	**($0.29)**	**$0.07**	($0.52)	$0.22	$0.14	$0.12
Adjusted net earnings (loss)[1]	**(6,880)**	**648**	**(1,911)**	**5,250**	(92)	15,965	14,128	5,551
Basic adjusted net earnings (loss) per share[1]	**($0.08)**	**$0.01**	**($0.03)**	**$0.07**	($0.01)	$0.23	$0.24	$0.12
Backlog[1]	**165,790**	**162,323**	**188,982**	**215,588**	223,177	212,264	263,702	73,154

[1] See Non IFRS Measures

Revenues, Gross Profit, Net Earnings (loss) and Earnings (loss) per Share

	Q4 2012	Q4 2011	2012	Seven-month period ended December 31, 2011
	$	$	$	$
Revenues	128,620	149,423	551,675	391,712
Gross profit[1]	(5,599)	(8,674)	31,428	34,182
Adjusted gross profit[1]	18,918	24,739	82,013	68,972
Adjusted gross profit ratio[1]	14.7%	16.6%	14.9%	17.6%
Impairment charges	229,263	45,573	255,331	46,950
Adjusted net earnings (loss)	(6,880)	(92)	(2,893)	16,505
Basic adjusted net (loss) per share[1]	($0.08)	($0.01)	($0.04)	$0.23
Net loss	(211,953)	(37,397)	(227,849)	(22,464)
Basic loss per share	($2.70)	($0.53)	($2.91)	($0.32)

Revenues

Revenues for Q4 2012 were $128.6 million compared to revenues of $149.4 million for Q4 2011. Revenues for 2012 reached $551.7 million representing a 40.8% increase over revenues of $391.7 million for the seven-month period ended December 31, 2011. The decrease in sales for Q4 2012 is mainly due to lower underlying commodity pricing and the increase for 2012 to the difference in the length of the reporting period.

Impairment charges

The Company recorded a total impairment charge of $229.3 million in Q4 2012 due to the impairment of goodwill related to the MCP acquisition and non-current assets for a total of $204.8 million and to inventory write-down of $24.5 million in response to adverse commodity pricing mainly in bismuth, gallium and selenium. In 2012, the Company recorded an inventory write-down of $50.6 million for a total impairment charge of $255.3 million. The impairment charges allocated to the Electronic and Eco-Friendly business units were $153.6 million and $101.7 million respectively. The plant closure in Trail was also responsible for an impairment of $11.0 million of the Property, plant and equipment ("PPE").

	Q4 2012	Q4 2011	2012	Seven-month period ended December 31, 2011
	$	$	$	$
Impairment of inventories	24,517	33,413	50,585	34,790
Impairment of PPE	39,239	11,460	39,239	11,460
Impairment of intangible assets	40,597	-	40,597	-
Impairment of goodwill	124,910	-	124,910	-
Impairment charges	229,263	44,873	255,331	46,250

Gross profit and adjusted gross profit

For Q4 2012, gross profit was ($5.6) million and adjusted gross profit was $18.9 million compared to ($8.7) million and $24.7 million for Q4 2011. For Q4 2012, adjusted gross profit ratio was 14.7% compared to 16.6% for Q4 2011. For 2012, gross profit and adjusted gross profit were $31.4 million and $82.0 million compared to $34.2 million and $69.0 million for the seven-month period ended December 31, 2011. For 2012, adjusted gross profit ratio was 14.9% compared to 17.6% in the seven-month period of last year. The decrease in gross profit ratio is mainly due to inventories remaining fully valued as a result of the decreasing trend in underlying commodity pricing.

Adjusted net earnings (loss) and net earnings (loss)

Adjusted net loss for Q4 2012 was $6.9 million or $0.08 per share and $2.9 million or $0.04 per share for 2012. Adjusted net earnings (loss) for Q4 2011 were ($0.1) million or ($0.01) per share and $16.5 million or $0.23 for the seven-month period ended December 31, 2011. Net loss for Q4 2012 was $212.0 million or $2.70 per share and $227.8 million or $2.91 per share for 2012 resulting from impairment charges of $255.3 million mostly booked in Q4 2012. Net loss was $37.4 million or $0.53 per share and $22.5 million or $0.32 per share for the seven-month period ended December 31, 2011 respectively. These decreases are mainly attributable to lower average selling prices and the fully valued price of inventories following a continuing decreasing trend of commodity prices and impairment charges related to the MCP acquisition.

[1] See Non-IFRS Measures

Reconciliation of EBITDA and Adjusted EBITDA

	Q4 2012	Q4 2011	*Increase (Decrease)*	2012	Seven-month period ended December 31, 2011	*Increase (Decrease)*
	$	$		**$**	$	
Net loss	**(211,953)**	(37,397)	*467%*	**(227,849)**	(22,464)	*914%*
Interest on long-term debt and other interest expense	**1,463**	2,048	*(29%)*	**8,828**	5,487	*61%*
(Gain) loss on foreign exchange and derivative	**(360)**	1,118	*(132%)*	**2,759**	(642)	*(530%)*
Depreciation and amortization	**5,628**	5,463	*3%*	**21,159**	12,797	*65%*
Income tax recovery	**(18,578)**	(9,670)	*92%*	**(24,221)**	(4,713)	*414%*
Restructuring costs	**932**	-	-	**2,781**	-	-
Impairment of goodwill, PPE and intangible assets	**204,746**	12,160	*1,584%*	**204,746**	12,160	*1,584%*
Reversal of impairment of PPE	**-**	-	-	**(932)**	-	-
EBITDA[1]	**(18,122)**	(26,278)	*(31%)*	**(12,729)**	2,625	*(585%)*
Impairment of inventory	**24,517**	33,413		**50,585**	34,790	
Adjusted EBITDA[1]	**6,395**	7,135	*(10%)*	**37,856**	37,415	*1%*

EBITDA and Adjusted EBITDA

In Q4 2012, EBITDA amounted to ($18.1) million and Adjusted EBITDA to $6.4 million. EBITDA for 2012 was ($12.7) million and is primarily attributable to impairment charges recorded in Q2 2012 and Q4 2012 and, Adjusted EBITDA was $37.9 million in 2012. This compares to adjusted EBITDA of $7.1 million and $37.4 million for the three and seven-month periods ended December 31, 2011 respectively. Adjusted EBITDA remains relatively stable in Q4 2012 but continues to reflect low average selling prices due to the lower price of the underlying commodities.

Reversal of previously impaired property, plant and equipment

In 2012, the Company partially reversed asset impairment charges of $0.9 million previously booked in the quarter ended December 31, 2011 related to its PPE located in DeForest, Wisconsin.

Bookings and Backlog

Bookings in Q4 2012 were $132.0 million and $494.3 million for 2012. This compares with bookings of $160.5 million and $351.2 million for the three and seven-month periods ended December 31, 2011. Backlog as at December 31, 2012 stood at $165.8 million which corresponds to a 25.8% decrease over the $223.2 million backlog as at December 31, 2011. Decreases in bookings and backlog in 2012 compared to 2011 are primarily associated with decreases in expected average selling prices given the current decreasing trend of underlying commodity prices as well as a more conservative treatment of our contract with our main customer in the solar market which no longer has take or pay provisions. Backlog increased by $3.5 million compared to the backlog of September 30, 2012.

Segment Information

Revenues, EBITDA and bookings for the Company's reportable segments, namely Electronic Materials business unit and Eco-Friendly Materials business unit are discussed below. Former MCP activities were carried out in both business segments and are accordingly split between the two. 5N Plus activities prior to MCP acquisition are entirely included in the Electronic Materials business segment.

EBITDA and Adjusted EBITDA per Business Unit

	Q4 2012	Q4 2011	2012	Seven-month period ended December 31, 2011
	$	$	**$**	$
Electronic Materials	**(1,733)**	(19,607)	**10,909**	(333)
Eco-Friendly Materials	**(11,700)**	1,773	**(8,209)**	14,600
Corporate	**(4,689)**	(8,444)	**(15,429)**	(11,642)
EBITDA[1]	**(18,122)**	(26,278)	**(12,729)**	2,625
Impairment of inventory	**24,517**	33,413	**50,585**	34,790
Adjusted EBITDA[1]	**6,395**	7,135	**37,856**	37,415

[1] See Non-IFRS Measures

Electronic Materials Business Unit

	Q4 2012	Q4 2011	2012	Seven-month period ended December 31, 2011
	$	$	**$**	$
Revenues	**55,254**	69,761	**232,013**	186,015
Cost of goods & expenses, before amortization	**(56,987)**	(89,368)	**(221,110)**	(186,348)
EBITDA[1]	**(1,733)**	(19,607)	**10,903**	(333)
Impairment of inventory	**8,226**	30,658	**23,750**	30,964
Adjusted EBITDA[1]	**6,493**	11,051	**34,653**	30,631
Bookings	**59,342**	76,073	**178,615**	179,145

Revenues for Q4 2012 for the Electronic Materials business unit decreased by 20.8% and reached $55.2 million down from $69.8 million in Q4 2011. Revenues for 2012 increased by 24.7% and reached $232.0 million, up from $186.0 million for the seven-month period ended December 31, 2011. The increase in 2012 is due to the difference in the length of the reporting periods, and the decrease in Q4 2012 from lower average selling prices following a reduced price for underlying commodities.

Adjusted EBITDA for Q4 2012 for the Electronic Materials business unit decreased to $6.5 million down by 41.2% compared to $11.1 million in Q4 2011. Adjusted EBITDA for 2012 was $34.7 million which represents a 13.1% increase over Adjusted EBITDA of $30.6 million for the seven-month period ended December 31, 2011. The increase in 2012 is due to the difference in the length of the reporting periods. The decrease for Q4 2012 compared to Q4 2011 is primarily associated with lower average selling prices.

Bookings in Q4 2012 for the Electronic Materials business unit were $59.3 million, up from $30.0 million for the quarter ended September 30, 2012. An increase in bookings in Q4 2012 was expected as yearly contracts are normally signed at the end or beginning of calendar year. The backlog for the Electronic Materials business unit now stands at $100.7 million, a decrease of $49.3 million compared to December 31, 2011 due to the lower expected average selling prices given the current decreasing trend of underlying commodity prices, as well as the ongoing restructuring in the solar market.

Eco-Friendly Materials Business Unit

	Q4 2012	Q4 2011	2012	Seven-month period ended December 31, 2011
	$	**$**	**$**	$
Revenues	**73,366**	**79,663**	**319,662**	205,697
Cost of goods & expenses, before amortization	**(85,066)**	**(77,890)**	**(327,865)**	(191,097)
EBITDA[1]	**(11,700)**	**1,773**	**(8,203)**	14,600
Impairment of inventory	**16,291**	**2,755**	**26,835**	3,826
Adjusted EBITDA[1]	**4,591**	**4,528**	**18,632**	18,426
Bookings	**72,744**	**84,444**	**311,584**	172,043

Revenues decreased by $6.3 million and reached $73.4 million in Q4 2012 compared to $79.7 million in Q4 2011. Revenues for 2012 increased by 55.4% and were $319.7 million, up from $205.7 million for the seven-month period ended December 31, 2011. The decrease in revenues for the quarter is due to lower selling prices associated with the reduced prices of underlying commodities. The increase for 2012 is due to the difference in the length of the reporting periods.

Adjusted EBITDA in Q4 2012 for the Eco-Friendly Materials business unit remains stable compared to Q4 2011 and totalled $4.6 million compared to $4.5 million in Q4 2011. Adjusted EBITDA for 2012 reached $18.6 million compared to $18.4 million for the seven-month ended December 31, 2011.

Bookings in Q4 2012 for the Eco-Friendly Materials business unit reached $72.7 million, up from $64.1 million in the quarter ended September 30, 2012. An increase in bookings in Q4 2012 was expected as yearly contracts are normally signed at the end or beginning of calendar years. The backlog for the Eco-Friendly Materials business unit now stands at $65.1 million, a decrease of $8.1 million over the backlog as at December 31, 2011. This decrease is mainly associated with lower selling prices.

[1] See Non-IFRS Measures

Expenses

	Q4 2012	Q4 2011	Increase (Decrease)	2012	Seven-month period ended December 31, 2011	Increase (Decrease)
	$	$		**$**	$	
Depreciation and amortization	**5,628**	5,463	3%	**21,159**	12,797	65%
SG&A excluding amortization	**12,561**	17,446	(28%)	**45,742**	33,500	37%
Restructuring costs	**932**	-	-	**2,781**	-	-
Financial expenses	**1,103**	3,169	(65%)	**11,587**	4,845	139%
Income tax recovery	**(18,578)**	(9,670)	92%	**(24,221)**	(4,713)	414%
	1,646	16,408	(88%)	**57,048**	46,429	17%

Depreciation and Amortization

Depreciation and amortization expenses for Q4 2012 were $5.6 million compared to $5.5 million for Q4 2011. For 2012, depreciation and amortization expenses were $21.2 million compared to $12.8 million for the seven-month period ended December 31, 2011. The increase in depreciation and amortization for 2012 relates to the difference in the length of the reporting periods and are otherwise in line with the 2011 run rates.

SG&A

Selling, General and Administrative expenses were $12.6 million and $45.7 million in Q4 2012 and 2012 respectively compared to $17.4 million and $33.5 million for Q4 2011 and the seven-month period ended December 31, 2011, respectively. The increase in 2012 is due to the difference in the length of the periods and is otherwise approximately 28% lower than Q4 2011 and 20% lower than the 2011 run rates reflecting the cost reduction efforts.

Restructuring costs

The Company incurred expenses of $0.9 and $2.8 million during Q4 2012 and 2012 resulting from an incident which occurred at one of its sites in the US, and some severance payments.

Financial Expenses

Financial expenses decreased to $1.1 million for Q4 2012 compared to $3.2 million for Q4 2011 due the lower level of debt. Financial expenses for 2012 were $11,6 million compared to $4.8 million for the seven-month period ended December 31, 2011 due to the difference in the length of the periods.

Income Taxes

For Q4 2012, recovery of income tax was $18.6 million compared to $9.7 million for Q4 2011. Recovery of income tax for 2012 was $24.2 million compared to $4.7 million for the seven-month period ended December 31, 2011, representing effective tax rates of 9.6% and 17.3% respectively. The lower effective tax rate is due mainly to the goodwill impairment charge which is not deductible for tax purposes.

Liquidity and Capital Resources

Cash Flows

	Q4 2012	Q4 2011	2012	Seven-month period ended December 31, 2011
	$	$	**$**	$
Funds from operations[1]	**4,244**	10,349	**25,393**	27,338
Net changes in non-cash working capital items related to operations	**2,685**	(9,284)	**76,419**	(38,253)
Operating activities	**6,929**	1,065	**101,812**	(10,915)
Investing activities	**(4,346)**	(9,027)	**33,637**	(12,321)
Financing activities	**(100)**	7,791	**(154,964)**	24,043
Effect of foreign exchange rate changes on cash and cash equivalents related to operations	**(276)**	592	**(399)**	592
Net increase (decrease) in cash and cash equivalents	**2,207**	421	**(19,914)**	1,399

Cash generated by operating activities was $6.9 million in Q4 2012 and $101.8 million in 2012. This compares with cash generated of $1.1 million and ($10.9) million for Q4 2011 and the seven-month period ended December 31, 2011 respectively. This increase in cash is essentially related to a decrease in working capital requirements primarily associated with a reduction in inventory levels of $145 million.

[1] See Non-IFRS Measures

Investing activities consumed $4.3 million in Q4 2012 and generated $33.6 million in 2012 compared to consumption of $9.0 million and $12.3 million for Q4 2011 and the seven-month period ended December 31, 2011 respectively. For Q4 2012, cash consumed from investing activities was mainly due to the acquisition of PPE and cash generated from investing activities in 2012 were mainly related to temporary investments partially netted by the acquisition of PPE.

Cash consumed by financing activities amounted to $0.1 million in Q4 2012 and $155.0 million in 2012 and resulted mainly from reduction of indebtedness by $192.2 million partially netted by the proceeds of the issuance of common shares and warrants that occurred in June 2012 for an amount of $37.1 million. For the seven-month period ended December 31, 2011, financing activities provided $24.0 million as the Company refinanced its revolving credit facility.

Working Capital

	As at December 31, 2012	As at December 31, 2011
	$	$
Inventories	**170,293**	315,333
Other current assets	**121,144**	171,756
Current liabilities	**(104,789)**	(151,384)
Working capital[1]	**186,648**	335,705
Working capital current ratio[1]	**2.78**	3.22

Working capital decreased to $186.6 million as at December 31, 2012 compared to $335.7 million as at December 31, 2011, reflecting the reduction of $145.0 million in inventory levels and $69.4 million in cash and cash equivalents and temporary investments which was partially offset by a decrease of $65.4 million in bank indebtedness and short-term debt.

Net Debt

	As at December 31, 2012	As at December 31, 2011
	$	$
Bank indebtedness and short-term debt	**8,014**	73,430
Long-term debt including current portion	**140,425**	268,476
Total Debt	**148,439**	341,906
Cash and cash equivalents and temporary investments (restricted)	**(11,892)**	(81,331)
Net Debt[1]	**136,547**	260,575

Net debt after taking into account cash and cash equivalents and restricted temporary investments amounted to $136.5 million as at December 31, 2012 compared to $260.6 million as at December 31, 2011 corresponding to a decrease of $124.0 million, reflecting strong cash generated from operations which is mainly used to reimburse the debt.

Funds from Operations

	Q4 2012	Q4 2011	**2012**	Seven-month period ended December 31, 2011
	$	$	**$**	$
Funds from operations[1]	**4,243**	10,349	**25,393**	27,338
Acquisition of PPE and intangible assets	**(3,926)**	(5,668)	**(15,888)**	(10,785)
Working capital changes	**2,686**	(9,284)	**76,419**	(38,253)
Issuance of common shares	**-**	134	**38,636**	346
Others	**678**	(3,766)	**(532)**	1,989
	(562)	(18,584)	**98,635**	(46,703)
Total movement in net debt[1]	**3,681**	(8,235)	**124,028**	(19,365)
Net debt[1], beginning of period	**(140,228)**	(252,340)	**(260,575)**	(241,210)
Net debt[1], end of period	**(136,547)**	(260,575)	**(136,547)**	(260,575)

Funds from operations were $4.2 million in Q4 2012 compared to $10.3 million in Q4 2011. For 2012, funds from operations were $25.4 million compared to $27.3 million for the seven-month period ended December 31, 2011.

Net debt to adjusted EBITDA ratio for 2012 was 3.6. Funds from operations generated in the same period represented 18.6% of net debt.

[1] See Non-IFRS Measures

	Q4 2012	Q4 2011	2012	Seven-month period ended December 31, 2011
Net debt[1] to annualized adjusted EBITDA ratio	**5.34**	9.13	**3.6**	4.0
Annualised funds from operations[1] to net debt (%)	**12.4**	15.9	**18.6**	18.0

Share Capital

Authorized

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

The Company has an unlimited number of preferred shares that 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.

Issued and fully paid	**As at December 31, 2012**		As at December 31, 2011	
Common shares	**Number**	**$**	Number	$
Outstanding	**83,908,269**	**343,272**	70,961,125	305,928

As at March 28, 2013 a total of 83,908,269 common shares were issued and outstanding, and no preferred shares were issued or outstanding.

Stock Option Plan

On April 11, 2011, the Company adopted a new stock option plan (the "Plan") replacing the previous plan (the "Old Plan") in place since October 2007, with the same features as the Old Plan with the exception of a maximum number of options granted which cannot exceed five million. The aggregate number of shares which could be issued upon the exercise of options granted under the Old Plan could not exceed 10% of the issued shares of the Company at the time of granting the options. Options granted under the Old Plan may be exercised during a period not exceeding ten years from the date of grant. The stock options outstanding as at December 31, 2012 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. Any unexercised options will expire one month after the date a beneficiary ceases to be an employee, director or officer.

The number of stock options and the weighted average exercise price for each share-based compensation plan are as follows:

	2012		Seven-month period ended December 31, 2011	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		CA$		CA$
Outstanding, beginning of period	**1,543,211**	**5.28**	1,384,025	4.52
Granted	**325,840**	**2.22**	275,249	8.60
Cancelled	**(240,072)**	**5.60**	(47,565)	5.40
Exercised	**(43,531)**	**3.36**	(68,498)	3.17
Outstanding, end of period	**1,585,448**	**4.67**	1,543,211	5.28
Exercisable, end of period	**1,024,656**	**4.94**	908,657	4.28

Off-Balance Sheet Arrangements

The Company has certain off-balance sheet arrangements, consisting of leasing certain premises and equipment under the terms of operating leases and contractual obligations in the normal course of business.

The Company is exposed to currency risk on sales in Euro and other currencies and therefore periodically enters into foreign currency forward contracts to protect itself against currency fluctuation. The reader will find more details related to these contracts in Note 24 and Note 26 in the 2012 consolidated financial statements of the Company.

[1] See Non-IFRS Measures

The contractual maturities of the Company's financial liabilities as at December 31, 2012 are as follows:

	Carrying amount	1 year	2-3 years	4-5 years	Beyond 5 years	Total
	$	$	$	$	$	$
Bank indebtedness and short-term debt	8,014	8,531	-	-	-	8,531
Trade and accrued liabilities	62,214	62,214	-	-	-	62,214
Derivative financial instruments	6,354	2,817	3,537	-	-	6,354
Long-term debt	140,425	31,236	116,552	421	21	148,230
Leases	4,760	2,148	1,415	597	600	4,760
Total	**221,767**	**106,946**	**121,504**	**1,018**	**621**	**230,089**

Contingencies

In the normal course of operations, the Company is exposed to events that could give rise to contingent liabilities or assets. As at March 28, 2013, the Company was not aware of any significant events that would have a material effect on its consolidated financial statements, except for the legal proceedings and related matters described on page 17 of this MD&A under section "Risks and Uncertainties".

Governance

As required by Multilateral Instrument 52-109 of the Canadian Securities Administrators («MI 52-109 »), 5N Plus has filed certificates signed by the Chief Executive Officer and the Chief Financial Officer that, among others, attest to the design of the disclosure controls and procedures and the design and effectiveness of internal control over financial reporting.

Disclosure Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer have designed disclosure controls and procedures, or have caused them to be designed under their supervision, in order to provide reasonable assurance that:

- material information relating to the Company has been made known to them; and
- information required to be disclosed in the Company's filings is recorded, processed, summarized and reported within the time periods specified in securities legislation.

An evaluation was carried out, under the supervision of the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures are effective.

Internal Control over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

An evaluation was carried out under the supervision of the Chief Executive Officer and the Chief Financial Officer, of the design of the Company's internal controls over financial reporting. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the internal controls over financial reporting are effective, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Changes in Internal Control over Financial Reporting

No changes were made to our internal controls over financial reporting during the fiscal year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Accounting Policies and Changes

The Company established its accounting policies and methods used in the preparation of its audited consolidated financial statements for the fiscal year 2012 in accordance with IFRS. The Company's significant accounting policies are described in Note 2 to the December 31, 2012 audited consolidated financial statements. The key assumptions and basis for estimates that management has made under IFRS, and their impact on the amounts reported in the

consolidated financial statements and notes, remain substantially unchanged from those described in the Company's audited consolidated financial statements for the fiscal year ended December 31, 2011.

Significant Management Estimation and Judgment in Applying Accounting Policies

The following are significant management judgments used in applying the accounting policies of the Company that have the most significant effect on the consolidated financial statements.

Estimation uncertainty

When preparing the consolidated financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, revenues and expenses. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, revenues and expenses are discussed below.

Impairment of non-financial assets

An impairment loss is recognized for the amount by which an asset's or CGUs carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use.

To determine value in use, management estimates expected future cash flows from each asset or CGU and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and to asset-specific risk factors.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date whenever events or changes in circumstances indicate that their carrying value amounts may not be recoverable.

Inventories

Inventories are measured at the lower of cost and net realizable value, with cost determined on the average cost method. In estimating net realizable values, management takes into account the most reliable evidence available at the time the estimates are made. The Company's core business is subject to changes in foreign policies and internationally accepted metal prices which may cause selling prices to change rapidly. The Company evaluates its inventory using a group of similar items basis and considered events that have occurred between the financial position date and the date of the completion of the financial statements. Net realizable value held to satisfy a specific sales contract is measured at the contract price.

Income taxes

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Company has deferred income tax assets that are subject to periodic recoverability assessments. Realization of the Company's deferred income tax assets is largely dependent upon its achievement of projected future taxable income and the continued applicability of ongoing tax planning strategies. The Company's judgments regarding future profitability may change due to future market conditions, changes in tax legislation and other factors that could adversely affect the ongoing value of the deferred income tax assets. These changes, if any, may require the material adjustment of these deferred income tax asset balances through an adjustment to the carrying value thereon in the

future. This adjustment would reduce the deferred income tax asset to the amount that is considered to be more likely than not to be realized and would be recorded in the period such a determination was to be made.

Future Accounting Standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013, and have not been applied in preparing the 2012 consolidated financial statements. None of these is expected to have a significant effect on the Company's consolidated financial statements, except the following set out below.

IFRS 9, "Financial Instruments", addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the consolidated statement of earnings (loss), unless this creates an accounting mismatch. The Company has yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after January 1, 2015. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

IFRS 10, "Consolidated Financial Statements", builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company has yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after January 1, 2013.

IFRS 12, "Disclosures of Interests in Other Entities", includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special-purpose vehicles and other off-balance sheet vehicles. The Company has yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after January 1, 2013.

IFRS 13, "Fair Value Measurement", aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.

IAS 19, "Employee Benefits", was amended in June 2011. The impact on the Company will be as follows: to immediately recognize all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Company has yet to assess the full impact of the amendments.

Amendment to IAS 1, "Financial Statement Presentation". The main change resulting from this amendment is a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendment does not address which items are presented in OCI.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

Related Party Transactions

The Company's related parties are its joint ventures, directors and executive members. Transactions with these related parties are described in Note 25 and Note 28 in the 2012 consolidated financial statements of the Company.

Financial Instruments

Fair Value of financial instruments

The Company has determined that the carrying value of its short-term financial assets and financial liabilities, including cash and cash equivalents, temporary investments, accounts receivable, bank indebtedness and short-term debt, and trade and accrued liabilities approximates their carrying value due to the short-term maturities of these instruments.

A detailed description of the methods and assumptions used to measure the fair value of the Company's financial instruments and their fair value are discussed in Note 17 – Categories of Financial Assets and Financial Liabilities in the 2012 consolidated financial statements of the Company.

The fair value of the derivative financial instruments was as follows:

Liability	December 31, 2012	December 31, 2011
	$	$
Interest rate swap	3,870	2,326
Foreign exchange forward contracts	1,080	517
Options	239	2,873
Warrants	1,165	-
Total	**6,354**	**5,716**

Interest rate risk

Interest rate risk refers to the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its revolving credit facility, which bears a floating interest rate.

As at December 31, 2012, the Company had an outstanding interest rate swap contract to hedge part of its interest rate risk on the revolving credit facility. The nominal value is $100 million beginning in January 2013 and ending in August 2015. This interest rate swap fixed the LIBOR interest rate at 1.82%. The Company received $1.7 million when entering into this interest rate swap in September 2011, which was the fair value of the instrument on signing. The fair value of the contract is ($3.9) million as at December 31, 2012 and was recorded as part of derivative financial liabilities in the consolidated statement of financial position.

Currency Risk

The Company's sales are primarily denominated in U.S. dollars whereas a portion of our operating costs are realized in local currencies, such as Euros, Canadian dollars and Pounds Sterling. Even though the purchases of raw materials are denominated in U.S. dollars, which reduce to some extent the impact of exchange rate fluctuations, we are subject to currency translation risk which can negatively impact our results. Management has implemented a policy for managing foreign exchange risk against the relevant functional currency. The Company manages the foreign exchange risk by entering into various foreign exchange forward contracts.

The Company had the following currency exposures on December 31, 2012:

	CA$	EUR	GBP	RMB	HK$
Cash and cash equivalents	101	2,771	85	3,913	11
Temporary investments (restricted)	-	2,357	-	-	-
Accounts receivable	444	12,574	2,203	3,893	-
Bank indebtedness and short-term debt	-	-	-	(8,014)	-
Trade and accrued liabilities	(2,568)	(11,379)	(870)	(4,733)	(232)
Long-term debt	(1,052)	(65,928)	-	-	-
Net financial (liabilities) assets	**(3,075)**	**(59,605)**	**1,418**	**(4,941)**	**(221)**

The following table shows the impact on earnings before income tax of a one-percentage point strengthening or weakening of foreign currencies against the US dollar as at December 31, 2012 for the Company's financial instruments denominated in non-functional currencies:

	CA$	EUR	GBP	RMB	HK$
1% Strengthening					
Earnings (loss) before tax	(31)	(596)	14	(49)	(2)
1% Weakening					
Earnings (loss) before tax	31	596	(14)	49	2

Options

The Company sold options to a financial institution, giving it the right to sell Euros to the Company on specific dates. The options have a nominal value of €21.5 with €/US$ exchange of 1.3283, and they mature in January 2013 without renewal. The fair value was ($0.2) million as at December 31, 2012.

The market value of those financial instruments depends on several factors, such as foreign market volatility, the remaining duration of the instruments and other market conditions. For these reasons, it is very difficult for the Company to evaluate market risk. The Company believes that a sensitivity analysis would be unrepresentative.

Warrants

In June 2012, the Company issued 12,903,613 units at a price of CA$3.10 per unit. Each unit comprises one common share and one-half of a common share purchase warrant. The Company issued 6,451,807 warrants, which are recorded as part of derivative financial liabilities at fair value based on the stock exchange market. The fair value was ($1.2) million as at December 31, 2012 and nil as at December 31, 2011. Fair value depends on several factors, such as market volatility, foreign exchange rate volatility, interest rate fluctuations, the Company's market activity and other market conditions. For these reasons, it is very difficult for the Company to evaluate market risk. The Company believes that a sensitivity analysis would be unrepresentative.

Credit risk

Credit risk corresponds to the risk of loss due to the client's inability to fulfill its obligations with respect to trade and other receivables as well as contracts. The Company has a large number of clients and is no longer dependent on a specific client. The Company has a credit policy that defines standard credit practices. This policy dictates that all new customer accounts be reviewed prior to approval and establishes the maximum amount of credit exposure per customer. The creditworthiness and financial well-being of the customer are monitored on an ongoing basis.

The Company establishes an allowance for doubtful accounts as determined by management based on its assessment of collection; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at December 31, 2012 and 2011, the Company has an allowance for doubtful accounts of $168 and $482 respectively. The provision for doubtful accounts, if any, will be included in SG&A expenses in the consolidated statements of earnings (loss), and will be net of any recoveries that were provided for in prior periods.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages liquidity risk through the management of its capital structure. It also manages liquidity risk by continually monitoring actual and projected cash flows, taking into account the Company's sales and receipts and matching the maturity profile of financial assets and financial liabilities. The Board of Directors reviews and approves the Company's annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisitions and other major investments.

Risks and Uncertainties

The Company is subject to a number of risk factors which may limit its ability to execute its strategy and achieve its long-term growth objectives. Management analyses these risks and implements strategies in order to minimize their impact on the Company's performance.

Possible Failure to Realize Anticipated Benefits of Acquisitions

There is a risk that some of the expected benefits will fail to materialize, or may not occur within the time periods anticipated by our management. The realization of such benefits may be affected by a number of factors, many of which are beyond our control. These factors include achieving the benefits of the acquisition and any future acquisitions that we may complete and will depend in part on successfully consolidating functions and integrating operations, procedures and personnel in a timely and efficient manner, as well as our ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with ours. The integration of acquired businesses requires the dedication of substantial management effort, time and resources which may divert management's focus and resources from other strategic opportunities and from operational matters during this process. The integration process may result in the loss of key employees, significant expenses and the disruption of ongoing business, customer and employee relationships that may adversely affect our ability to achieve the anticipated benefits of these acquisitions.

Additional Indebtedness

We assumed the indebtedness of former MCP upon the completion of the acquisition. The additional indebtedness has increased the interest payable by us from time to time until such amounts are repaid. In addition, we are required to pay to the selling shareholders the amounts set out in the promissory notes as well as the cash "holdback" described under "Acquisition Agreement and Related Agreements", in the short form prospectus dated April 1, 2011. Although we have signed a $200 million senior secured multi-currency revolving credit facility, we may need to find additional sources of financing to pay the foregoing indebtedness when it becomes due. There can be no guarantee that we will be able to obtain financing on terms acceptable to us or at all at such time or times.

International Operations

We operate in a number of countries, including China, and, as such, face risks associated with international business activities. We could be significantly affected by such risks, which include the integration of international operations, challenges associated with dealing with numerous legal systems, the potential for volatile economic and labor conditions, political instability, expropriation, and changes in taxes, tariffs and other regulatory costs. Although we operate primarily in countries with relatively stable economic and political climates, there can be no assurance that our business will not be adversely affected by the risks inherent in international operations.

Environmental Regulations

Our operations involve the use, handling, generation, processing, storage, transportation, recycling and disposal of hazardous materials and are subject to extensive environmental laws and regulations at the national, provincial, local and international level. These environmental laws and regulations include those governing the discharge of pollutants into the air and water, the use, management and disposal of hazardous materials and wastes, the clean-up of contaminated sites and occupational health and safety. We have incurred and will continue to incur capital expenditures in order to comply with these laws and regulations. In addition, violations of, or liabilities under, environmental laws or permits may result in restrictions being imposed on our operating activities or in our being subject to substantial fines, penalties, criminal proceedings, third party property damage or personal injury claims, clean-up costs or other costs. While we believe that we are currently in compliance with applicable environmental requirements, future developments such as more aggressive enforcement policies, the implementation of new, more stringent laws and regulations, or the discovery of currently unknown environmental conditions may require expenditures that could have a material adverse effect on our business, results of operations and financial condition. Former MCP's facility in Tilly, Belgium is currently undergoing corrective measures under a remediation plan as a result of industrial legacy at this site, which has been in industrial use for more than 100 years, and in order to comply with more stringent environmental regulations. The remediation plan has been approved by the local authorities and estimated resulting costs have been properly accounted for by the Company.

Legal Proceedings

On November 6, 2012, Florinvest S.A., Heresford Ltd., Metals Corp S.C.R.L. and S.R.I.W. S.A. (the "Vendors") which are all former shareholders of MCP filed a request for arbitration (the "Arbitration") against the Company, claiming that it misinterpreted the terms of the Acquisition Agreement entered into with them on February 26, 2011 with respect to the calculation of interests owed on the sums payable after closing. The Company opposes the position taken by the Vendors with respect to the method of calculating interest.

Together with the answer to the request for Arbitration, the Company also filed a counterclaim in the Arbitration, as it has discovered that the Vendors have breached the terms of the Acquisition Agreement, and certain other related agreements, including breaches with respect to representations and warranties made by the Vendors and breaches of closing conditions. The Company and MCP have also filed lawsuits against the former directors of MCP holding them personally liable for any and all damages caused by any faults or tortuous acts committed by them acting as directors of MCP or in any other capacity. The total amount of damages which the Company has incurred to date is provisionally estimated at an amount which is significantly higher than the balance of the sums allegedly owed under the terms of the Acquisition Agreement and other related documents. Furthermore, the Company intends to be fully indemnified by the Vendors and the former directors of MCP for any damage in excess of the balance of the sums owed under the terms of the Acquisition Agreement and other related documents.

The Company is confident that its claims against the Vendors and eventually the former directors of MCP have merit, however, there are no guarantees as to the outcome of such litigation.

The Company is threatened from time to time with, or may become subject to various legal proceedings in the ordinary course of conducting its business. Being implicated in such legal proceedings could require substantial amounts of its management's attention, necessitate financial resources to defend such claims or result in significant attorney fees and damage awards for which the Company may not be fully insured and which could harm its reputation. A significant judgment against the Company or the imposition of a significant fine or penalty could have a material adverse effect on its business, prospects, financial condition and results of operations.

Competition risk

We are the leading producer of specialty metal and chemical products and have a limited number of competitors, none of which are as fully integrated as we are or have a similar range of products. Accordingly, they are not in a position to provide the same comprehensive set of services and products as we do. However, there can be no guarantee that this situation will continue in the future and competition could arise from new low-cost metal refiners or from certain of our customers who could decide to backward integrate. The forecasted growth in demand for our main products may attract more metal refiners into this industry and increase competition. Although we believe that our operations and our commercial network are important competitive advantages, greater competition could have an adverse effect on our revenues and operating margins if our competitors gain market share and we are unable to compensate for the volume lost to our competition.

Commodity price risk

The price we pay for, and availability of, various inputs fluctuates due to numerous factors beyond our control, including economic conditions, currency exchange rates, global demand for metal products, trade sanctions, tariffs, labor costs, competition, over capacity of producers and price surcharges. Fluctuations in availability and cost of inputs may materially adversely affect our business, financial condition, results of operations and cash flows. To the extent that we are not able to pass on any increases, our business, financial condition, results of operations and cash flows may be materially adversely affected.

Sources of Supply

We may not be able to secure the critical raw material feedstock on which we depend for our operations. We currently procure our raw materials from a number of suppliers with whom we have had long-term commercial relationships. The loss of any one of these suppliers or a reduction in the level of deliveries to us may reduce our production capacity and impact our deliveries to customers. This would in turn negatively impact our sales, net margins and may lead to liabilities with respect to some of our sales contracts.

Protection of Intellectual Property

Protection of our proprietary processes, methods and other technologies is important to our business. We rely almost exclusively on a combination of trade secrets and employee confidentiality agreements to safeguard our intellectual property. We have deliberately chosen to limit our patent position to avoid disclosing valuable information. Failure to protect and monitor the use of our existing intellectual property rights could result in the loss of valuable technologies and processes.

Inventory price risk

The Company monitors its risk associated with the value of its inventories in relation to the market price of such inventories. Because of the highly illiquid nature of many of its inventories, we rely on a combination of standard risk measurement techniques, such as value at risk as well as a more empirical assessment of the market conditions. Decisions on appropriate physical stock levels are taken by considering both the value at risk calculations and the market conditions.

Business Interruptions

We may incur losses resulting from business interruptions. In many instances, especially those related to our long-term contracts, we have contractual obligations to deliver product in a timely manner. Any disruption in our activities which leads to a business interruption could harm our customers' confidence level and lead to the cancellation of our contracts and legal recourse against us. Although we believe that we have taken the necessary precautions to avoid business interruptions and carry business interruption insurance, we could still experience interruptions which would adversely impact our financial results.

Dependence on Key Personnel

The Company relies on the expertise and know-how of its personnel to conduct its operations. The loss of any member of our senior management team could have a material adverse effect on us. Our future success also depends on our ability to retain and attract our key employees, train, retain and successfully integrate new talent into our management and technical teams. Recruiting and retaining talented personnel, particularly those with expertise in the specialty metals industry and refining technology is vital to our success and may prove difficult. We cannot provide assurance that we will be able to attract and retain qualified personnel when needed.

Collective Agreements

A portion of our workforce is unionized and we are party to collective agreements that are due to expire at various times in the future. If we are unable to renew these collective agreements on similar terms as they become subject to renegotiation from time to time, this could result in work stoppages or other labour disturbances, such as strikes, walk-outs or lock-outs, potentially affecting our performance.

Risks Associated with Public Issuer Status

The Company's shares are publicly traded and, as such, it is subject to all of the obligations imposed on "reporting issuers" under applicable securities laws in Canada and all of the obligations applicable to a listed company under stock exchange rules. Direct and indirect costs associated with public company status have escalated in recent years and regulatory initiatives under consideration may further increase the costs of being public in Canada. Those costs could have an adverse effect on the Company's financial condition.

Non-IFRS Measures

In this Management's Report, the Company's management uses certain measures which are not in accordance with IFRS. Non-IFRS measures are useful supplemental information but may not have a standardized meaning according to IFRS.

Backlog represents the expected value of orders we have received but have not yet executed and that are expected to translate into sales within the next 12 months. Bookings represents the value of orders received during the period considered and is calculated by adding revenues to the increase or decrease in backlog for the period considered. We use backlog to provide an indication of expected future revenues, and bookings to determine our ability to sustain and increase our revenues.

EBITDA means net earnings (loss) before financial expenses (income), income taxes, depreciation and amortization, impairment or reversal of impairment of PPE and intangible assets, impairment of goodwill, restructuring costs and acquisition-related costs. We use EBITDA because we believe it is a meaningful measure of the operating performance of our ongoing business without the effects of certain expenses. The definition of this non-IFRS measure used by the Company may differ from that used by other companies.

Adjusted EBITDA means EBITDA as defined above before impairment of inventories. We use adjusted EBITDA because we believe it is a meaningful measure of the operating performance of our ongoing business without the effects of inventory write-downs. The definition of this non-IFRS measure used by the Company may differ from that used by other companies.

Adjusted net earnings means the net earnings (loss) before the effect of charge and reversal of impairment related to inventory, PPE and intangible assets, impairment of goodwill, restructuring charges and acquisitions costs net of the related income tax. We use adjusted net earnings (loss) because we believe it is a meaningful measure of the operating performance of our ongoing business without the effects of unusual inventory write-downs and property plant and equipment and intangible asset impairment charges, restructuring charges and acquisition costs. The definition of this non-IFRS measure used by the Company may differ from that used by other companies.

Basic adjusted net earnings (loss) per share means Adjusted net earnings (loss) divided by the weighted average number of outstanding shares. We use basic adjusted net earnings (loss) per share because we believe it is a meaningful measure of the operating performance of our ongoing business without the effects of unusual inventory write-downs and property plant and equipment and intangible asset impairment charges, restructuring charges and acquisition costs per share. The definition of this non-IFRS measure used by the Company may differ from that used by other companies.

Funds from operations means the amount of cash generated from operating activities before changes in non-cash working capital balances related to operations. This amount appears directly in the audited consolidated statements of cash flows of the Company. We consider funds from operations to be a key measure as it demonstrates the Company's ability to generate cash necessary for future growth and debt repayment.

Gross profit is a financial measure equivalent to the sales less cost of sales. The gross profit ratio is displayed as a percentage of sales. We use gross profit and gross profit ratio as measures of our ability to operate effectively and generate value.

Adjusted gross profit is a financial measure equivalent to the sales less cost of sales excluding write-down of inventories. The adjusted gross profit ratio is displayed as a percentage of sales. We use adjusted gross profit and adjusted gross profit ratio as measures of our ability to operate effectively and generate value.

Net debt or net cash is a measure we use to monitor how much debt we have after taking into account cash and cash equivalents and temporary investments. We use it as an indicator of our overall financial position, and calculate it by taking our total debt, including the current portion, and subtracting cash and cash equivalents and temporary investments.

Working capital is a measure that shows us how much cash we have available for the growth of our Company. We use it as an indicator of our financial strength and liquidity. We calculate it by taking current assets and subtracting current liabilities.

Additional Information

Our common shares trade on the Toronto Stock Exchange (TSX) under the ticker symbol VNP. Additional information relating to the Company, including the Company's annual information form is available under the Company's profile on SEDAR at www.sedar.com.

Subsequent Event

In March 2013, the Company signed an amendment to its senior secured multi-currency revolving credit facility under which the facility will be reduced to $100 million starting March 31, 2013. The amendment establishes new financial covenants for 2013 and maintains the original maturity (August 2015). The interest rate has been changed and is linked to the Debt/EBITDA ratio, and can vary from LIBOR, banker's acceptance rate or EURIBOR plus 3.00% to 4.50% or US base rate or prime rate plus 2.00% to 3.5%. Standby fees from 0.75% to 1.125% are paid on the unused portion. At any time, 5N Plus has the option to request that the credit facility be expanded to $140 million through the exercise of an additional $40 million accordion feature, subject to review and approval by the lenders.