5N PLUS

Interim Consolidated Financial Statements (unaudited)

Three-month periods ended August 31, 2010 and 2009

5N Plus Inc.
Interim Consolidated Statements of Income
Three-month periods ended August 31
(unaudited)

(in Canadian dollars)	Note	2010	2009
		$	$
Sales		**18,770,228**	16,053,220
Cost of sales		**10,417,960**	8,434,866
Gross profit		**8,352,268**	7,618,354
Expenses			
Selling, general and administrative		**1,919,897**	2,293,870
Research and development		**767,595**	375,872
Depreciation of property, plant and equipment		**619,610**	627,782
Amortization of intangible assets		**64,594**	34,352
Foreign exchange gain	6	**(595,657)**	(100,926)
Financial	7	**107,379**	39,556
Interest income		**(148,917)**	(139,992)
		2,734,501	3,130,514
Earnings before income taxes		**5,617,767**	4,487,840
Income taxes		**1,584,543**	1,473,232
Net earnings		**4,033,224**	3,014,608
Earnings per share	4		
Basic		**0.09**	0.07
Diluted		**0.09**	0.07
Weighted average number of common shares outstanding	4		
Basic		**45,630,102**	45,520,225
Diluted		**45,985,109**	45,929,751

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

5N Plus Inc.
Interim Consolidated Statements of Comprehensive Income
Three-month periods ended August 31
(unaudited)

(in Canadian dollars)	Note	2010	2009
		$	$
Net earnings		**4,033,224**	3,014,608
Other comprehensive income, net of income taxes:			
Cash flow hedges	6	**(451,920)**	-
Net gain on translating financial statements of self-sustaining foreign operations		**701,231**	241,812
Other comprehensive income		**249,311**	241,812
Comprehensive income		**4,282,535**	3,256,420

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

Interim Consolidated Statements of Shareholders' Equity
Three-month periods ended August 31
(unaudited)

(in Canadian dollars)	Note	2010	2009
Share Capital	3	**$**	$
Beginning of period		**82,389,870**	81,881,914
Shares issued under stock option plan		**27,992**	-
End of period		**82,417,862**	81,881,914
Contributed Surplus			
Beginning of period		**1,372,523**	797,800
Stock option compensation cost		**218,695**	174,503
Shares issued under stock option plan		**(10,142)**	-
End of period		**1,581,076**	972,303
Accumulated Other Comprehensive Income			
Beginning of period		**(2,531,494)**	(111,048)
Cash flow hedges	6	**(451,920)**	-
Net gain on translating financial statements of self-sustaining foreign operations		**701,231**	241,812
End of period		**(2,282,183)**	130,764
Retained Earnings			
Beginning of period		**44,447,638**	29,800,098
Net earnings		**4,033,224**	3,014,608
End of period		**48,480,862**	32,814,706
Shareholders' Equity		**130,197,617**	115,799,687

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

5N Plus Inc.
Interim Consolidated Balance Sheets

(in Canadian dollars)	Note	As at August 31, 2010 (unaudited)	As at May 31, 2010 (audited)
Assets		**$**	$
Current assets			
Cash and cash equivalents		**64,000,238**	67,992,321
Accounts receivable		**5,622,779**	4,774,460
Inventories	2	**30,391,225**	27,705,149
Prepaid expenses and deposits		**1,733,619**	1,073,025
Derivative financial instruments		**-**	1,362,804
Income taxes recoverable		**1,269,306**	516,602
Future income taxes		**112,948**	150,598
		103,130,115	103,574,959
Property, plant and equipment		**29,424,782**	26,437,302
Intangible assets		**1,730,909**	1,770,913
Goodwill		**4,454,762**	4,381,762
Future income taxes		**2,096,286**	2,311,191
Convertible debenture	8	**3,111,970**	-
Other assets		**45,181**	45,181
		143,994,005	138,521,308
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		**5,736,181**	4,646,220
Derivative financial instruments		**216,897**	-
Current portion of long-term debt		**572,820**	622,820
Future income taxes		**334,993**	444,662
Income taxes payable		**-**	43,826
		6,860,891	5,757,528
Long-term debt		**4,155,524**	4,197,803
Deferred revenues		**530,334**	553,578
Future income taxes		**2,249,639**	2,333,862
		13,796,388	12,842,771
Shareholders' Equity			
Share capital	3	**82,417,862**	82,389,870
Contributed surplus		**1,581,076**	1,372,523
Accumulated other comprehensive income		**(2,282,183)**	(2,531,494)
Retained earnings		**48,480,862**	44,447,638
		130,197,617	125,678,537
		143,994,005	138,521,308

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

5N Plus Inc.
Interim Consolidated Statements of Cash Flows
Three–month periods ended August 31
(unaudited)

(in Canadian dollars)	Note	**2010**	2009
Operating activities		**$**	$
Net earnings for the period		**4,033,224**	3,014,608
Non-cash items			
Future income taxes		**233,350**	(850,535)
Depreciation of property, plant and equipment		**619,610**	627,782
Amortization of intangible assets		**64,594**	34,352
Deferred revenues		**(43,334)**	(42,541)
Stock option compensation cost	3	**218,695**	174,503
Realized foreign exchange gain on cash designated	6	**388,058**	-
Other		**(80,149)**	(52,168)
		5,434,048	2,906,001
Net change in non-cash working capital items			
Accounts receivable		**(803,323)**	2,267,595
Income taxes recoverable		**(745,184)**	(653,131)
Inventories		**(3,178,191)**	(1,539,392)
Prepaid expenses and deposits		**(650,897)**	(215,495)
Accounts payable and accrued liabilities		**637,706**	(789,252)
Income taxes payable		**(43,827)**	(2,356,022)
		(4,783,706)	(3,285,697)
		650,342	(379,696)
Investing activities			
Acquisition of property, plant and equipment		**(2,786,122)**	(967,411)
Acquisition of convertible debenture	8	**(2,110,584)**	-
Acquisition of conversion option	8	**(1,001,385)**	-
Acquisition of intangible assets		**(24,589)**	(204,314)
		(5,922,680)	(1,171,725)
Financing activities			
Proceeds from disposal of financial instruments		**1,279,903**	1,685,076
Proceeds from exercise of stock options		**17,850**	-
Repayment of long-term debt		**(92,279)**	(125,010)
Net change in other long-term liabilities		**-**	22
		1,205,474	1,560,088
Effect of foreign exchange rates changes on cash and cash equivalents		**74,771**	52,168
Net (decrease) increase in cash and cash equivalents		**(3,992,093)**	60,835
Cash and cash equivalents, beginning of period		**67,992,321**	65,066,530
Cash and cash equivalents, end of period		**64,000,238**	65,127,365
Supplementary information			
Property, plant and equipment unpaid and included in accounts payable and accrued liabilities		**517,491**	305,170
Reclassification to inventories of foreign exchange gain on cash designated	6	**655,640**	-
Interest paid		**31,275**	37,335
Income taxes paid		**2,175,917**	5,206,013

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

1. Summary of Significant Accounting Policies

Basis of presentation

These interim consolidated financial statements of 5N Plus Inc., the ("Company") are expressed in Canadian dollars and have been prepared in accordance with the Canadian generally accepted accounting principles ("GAAP") and follow the same accounting policies and methods in their application as the most recent annual Consolidated Financial Statements. The unaudited interim consolidated financial statements do not include all disclosures required for annual financial statements and should be read in conjunction with the Company's most recent audited consolidated financial statements.

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.

Property, plant and equipment

Property, plant and equipment that were not amortized as at August 31, 2010 amounted to $3,817,197.

Comparative figures

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

2. Inventories

	As at August 31, 2010	As at May 31, 2010
	$	$
Raw materials	**17,061,135**	15,634,041
Finished goods and work in process	**13,330,090**	12,071,108
	30,391,225	27,705,149

3. 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.

(in Canadian dollars)

3. Share Capital (continued)

Issued and fully paid	Number	Amount
Common shares		$
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**
Shares issued under stock option plan	**5,950**	**27,992**
Outstanding as at August 31, 2010	**45,633,400**	**82,417,862**

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 August 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:

Three months ended August 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	**1.69**	2.46

The following table presents information concerning all outstanding stock options granted by the Company:

Three months ended August 31		**2010**		2009
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
		$		$
Beginning of period	**1,596,615**	**4.24**	1,439,555	3.78
Granted	**244,308**	**4.89**	37,500	6.53
Cancelled	**(11,820)**	**3.93**	-	-
Exercised	**(5,950)**	**3.00**	-	-
End of period	**1,823,153**	**4.34**	1,477,055	3.85

(in Canadian dollars)

Stock Option Plan (continued)

The outstanding stock options as at August 31, 2010 had a weighted-average remaining contractual life of 4.3 years.

As at August 31, 2010, 655,885 stock options were exercisable, at a weighted average exercise price of $3.72.

Stock option compensation cost is allocated as follows:

Three months ended August 31	**2010**	2009
	$	$
Cost of sales	**78,337**	35,176
Selling, general and administrative expenses	**116,483**	103,095
Research and development expenses	**23,875**	36,232
	218,695	174,503

Restricted stock unit incentive plan

On June 7, 2010, the Company adopted a Restricted Share Unit ("RSU") Plan to complement the Plan. The RSU Plan enables the Company to award eligible participants phantom share units that vest after a three-year period. RSU is settled in cash and is recorded as liabilities. The measurement of the compensation expense and corresponding liability for these awards is based on the fair value of the award, and is recorded as a charge to selling, general and administrative expenses ("SG&A") over the vesting period of the award. At the end of each financial period, changes in the Company's payment obligation due to changes in the market value of the common Shares on the TSX are recorded as a charge to SG&A expenses.

During the three-month period ended August 31, 2010, the Company granted 29,129 RSU and recorded a provision of $12,598.

Restricted stock unit incentive plan for foreign employees

On June 7, 2010, the Company adopted a Restricted Share Unit for Foreign Employees ("RSUFE") Plan. RSUFE granted under the RSUFE Plan may be exercised during a period not exceeding ten years from the date of the grant. The RSUFE outstanding as at August 31, 2010 may be exercised during a period not exceeding six years from their date of grant. RSUFE vest at a rate of 25% per year, beginning one year following the grant date of the award.

During the three-month period ended August 31, 2010, the Company granted 8,549 RSUFE and recorded a provision of $289.

(in Canadian dollars)

4. Earnings Per Share

Three months ended August 31	**2010**	2009
	$	$
Numerator		
Net earnings	**4,033,224**	3,014,608
Denominator		
Weighted average number of common shares	**45,630,102**	45,520,225
Effect of dilutive securities		
Stock options	**355,007**	409,526
	45,985,109	45,929,751
Earnings per share		
Basic	**0.09**	0.07
Diluted	**0.09**	0.07

5. Financial Instruments

Fair value

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 August 31, 2010, the fair value of the long-term debt is $4,728,344 ($4,820,623 as at May 31, 2010) 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 and liabilities by level of hierarchy was as follows as at August 31, 2010:

	Level 1	Level 2	Level 3	Total Financial Assets and Liabilities
	$	**$**	**$**	**$**
Cash and cash equivalents	**64,000,238**	**-**	**-**	**64,000,238**
Conversion option (note 8)	**-**	**-**	**1,001,385**	**1,001,385**
Derivative financial instruments	**-**	**(216,897)**	**-**	**(216,897)**
	64,000,238	**(216,897)**	**1,001,385**	**64,784,726**

Risk management policies and processes
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 customer
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;

One customer represented approximately 66% of sales for the three-month period ended August 31, 2010 (85% for the three-month period ended August 31, 2009) and 37% of accounts receivable as at August 31, 2010 (33% as at May 31, 2010).

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 August 31, 2010, the Company's cash and cash equivalents amounted to $64,000,238 ($67,992,321 as at May 31, 2010). The Company has $30,000,000 available under its credit facilities and a foreign exchange line guaranteed by collateral on cash and cash equivalents of $2,000,000. 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.

Liquidity and financing risk (continued)

The contractual maturities of financial liabilities as at August 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	5,736,181	5,736,181	5,736,181	-	-	-
Long-term debt	4,728,344	5,456,911	319,063	413,380	713,259	4,011,209
	10,464,525	11,193,092	6,055,244	413,380	713,259	4,011,209

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.

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 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 was effective from January 13, 2010 until May 31, 2011, at an average exchange rate of 1.4975. On June 4, 2010, the Company terminated prior to maturity this foreign exchange forward contract for cash proceeds of $1,282,400. The change in its fair value was recorded in the consolidated statement 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 is effective from June 1, 2010 to November 30, 2010 at an average exchange rate of 1.07. The fair value of the foreign exchange forward contract is $6,044 as at August 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.

Exchange risk (continued)

On June 29, 2010, the Company concluded a €5,500,000 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 July 2, 2010 until May 31, 2011, at an average exchange rate of 1.31. The fair value the foreign exchange forward contract is ($222,941) as at August 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 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 $19,336,162 as at August 31, 2010. Foreign exchange gain related to this cash and cash equivalents included in comprehensive income amounted to $941,244 as at August 31, 2010.

As at August 31, 2010, the Company had the following exposure on:

	USD	EUR
Financial assets and liabilities measured at amortized cost[1]:		
Cash and cash equivalents[2]	1,456,451	532,791
Accounts receivable	3,880,835	7,602
Receivable from the wholly-owned subsidiary	-	1,104,088
Accounts payable and accrued liabilities	(756,151)	-
Total exposure from above	4,581,135	1,644,481

[1] Amounts above do not include the wholly-owned subsidiary accounts balance as it is using the Euro as functional currency. However, intercompany account balances in Euros are included in these amounts.
[2]US$19,336,162 designated for future purchases of raw materials is not included.

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

	CA$ / US$	CA$ / €
Exchange rates as at August 31, 2010	1,0639	1,3515
Impact on net earnings based on a fluctuation of five cents in the Canadian dollar exchange rate	158,278	56,817

(in Canadian dollars)

6. Foreign exchange (gain) loss

Three months ended August 31	**2010**	2009
	$	$
Foreign exchange gain related to operations	**405,924)**	(301,002)
Realized foreign exchange (gain) loss on derivative financial instruments	**(175,617)**	200,076
Unrealized foreign exchange gain on derivative financial instruments	**(14,116)**	-
Included in the interim consolidated statement of income	**(595,657)**	(100,926)

Three months ended August 31	**2010**	2009
	$	$
Reclassification to earnings of realized foreign exchange gain on designated derivative financial instruments	**113,334**	-
Realized foreign exchange gain on cash designated	**(388,058)**	-
Reclassification to inventories of foreign exchange gain on cash designated	**655,640**	-
Unrealized foreign exchange loss on derivative financial instruments	**299,797**	-
	680,713	
Income tax on the above	**(228,793)**	-
Included in the interim consolidated statement of comprehensive income	**451,920**	-

7. Financial expenses

Three months ended August 31	**2010**	2009
	$	$
Interest and bank charges	**19,588**	4,413
Interest on long-term debt	**31,868**	35,143
Implicit interest	**55,923**	-
	107,379	39,556

8. Investment in Sylarus

On June 21, 2010, the Company acquired, for an amount of US$3,000,000 (approximately $3,072,000), a convertible note from Sylarus Technologies, LLC, a 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, at the Company's option, into 18% of voting and participating units of Sylarus.

8. Investment in Sylarus (continued)

This convertible debenture is a hybrid financial instrument, for which the loan and the embedded derivative components included therein are measured separately. The loan component is classified as loan and receivable and the embedded derivative representing the conversion option included therein is classified as held for trading.

The initial fair value of the loan component amounted to approximately $2,070,614 at the date of issuance, representing the present value of interest and principal repayment until its expiry date using a discount rate of 20%. An interest accretion revenue will then be recorded in the statement of income, increasing the loan component until it reaches US$3,000,000 at the maturity date. The initial fair value of the conversion option amounting to approximately $1,001,386 has been determined using the Black-Scholes option pricing model based on the following assumptions: no expected dividend yield, 70% volatility, 2.325% risk-free interest rate and an expected life of 4 years. The embedded conversion option component is recorded at fair value in the consolidated balance sheet and is included in the recorded amount of the convertible debenture. Any variation in the fair value of this conversion option will be recorded in the statement of income.

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 $4,255,600 based on the exchange rate as at August 31, 2010) which would bear interest at the same rate and with the same maturity as the initial convertible note and can be converted into 15% of additional voting and participating units of Sylarus. The fair value of this subscription right is currently not significant.

The terms of the convertible note provide to the Company the opportunity to elect one board member and thus provide the ability to exercise significant influence over Sylarus. Concurrently, the Company and Sylarus have also entered into a long-term supply and recycling agreement under which the Company will provide high-purity germanium feedstock to Sylarus and will recycle various germanium containing residues. During the first quarter ended August 31, 2010, the Company made sales in the amount of $228,687 and purchases in the amount of $120,405 to Sylarus. As at August 31, 2010, an amount of $228,687 is included in the accounts receivable and an amount of $120,405 is included in the accounts payable related to these transactions.

9. Subsequent event

On September 29, 2010, the Company concluded a €4,000,000 foreign exchange forward contract to hedge its sales made by its German subsidiary 5N PV. This foreign exchange forward contract will be effective from November 1, 2010 until May 31, 2011, at an average exchange rate of 1.39. This contract has been designated as cash flow hedges and the change in its fair value will be recorded in the consolidated statement of comprehensive income until May 31, 2011.