5N PLUS INC.

Consolidated Financial Statements

Years ended May 31, 2008 and 2007

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Consolidated Financial Statements

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

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

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

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

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

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

The consolidated financial statements have been audited by KPMG LLP.

SIGNED:

Jacques L'Écuyer

President and Chief Executive Officer

SIGNED:

Christian Dupont, CA

Chief Financial Officer

Montreal, Canada

August 11, 2008

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

We have audited the consolidated balance sheets of 5N Plus Inc. as at May 31, 2008 and 2007 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

SIGNED:

KPMG LLP

Chartered Accountants

Montreal, Canada

July 18, 2008

Consolidated Statements of Earnings

Years ended May 31

(in Canadian dollars)	2008	2007
Sales	$ 30,972,941	$ 21,897,240
Cost of goods sold	14,649,152	12,763,365
Gross profit	16,323,789	9,133,875
Expenses		
Selling and administrative	2,911,797	1,266,697
Research and development	930,232	664,868
Financial (note 15)	236,193	666,446
Interest income	(419,901)	-
Depreciation of property, plant and equipment (note 5)	1,048,886	869,974
	4,707,207	3,467,985
Earnings before undernoted items	11,616,582	5,665,890
Start-up costs, new plant	467,284	317,808
Earnings before income taxes	11,149,298	5,348,082
Income taxes		
Current	3,395,315	1,540,000
Future	(12,154)	234,000
	3,383,161	1,774,000
Net earnings	$ 7,766,137	$ 3,574,082
Earnings per share (note 18)		
Basic	$ 0.22	$ 0.12
Diluted	$ 0.21	$ 0.11
Weighted average number of common shares (note 18)		
Basic	35,308,641	29,635,954
Diluted	36,884,776	31,909,531

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

Consolidated Statements of Retained Earnings

Years ended May 31

(in Canadian dollars)	2008	2007
Retained earnings, beginning of year	$ 6,466,347	$ 2,966,345
Net earnings	7,766,137	3,574,082
Dividends	(1,000,000)	(74,080)
Share issue expenses, net of income taxes of $1,492,199	(3,643,334)	-
Excess of purchase price over stated value of shares purchased by the Company (note 11)	(66,050)	-
Retained earnings, end of year	**$ 9,523,100**	**$ 6,466,347**

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

Consolidated Balance Sheets

As at May 31

(in Canadian dollars)	**2008**	**2007**
Assets		
Current assets		
Cash and cash equivalents	$ 59,576,743	$ 1,526,932
Accounts receivable (note 3)	10,164,562	2,550,370
Inventories (note 4)	12,727,564	3,307,810
Prepaid expenses	348,504	203,944
Future income taxes (note 13)	456,325	-
	83,273,698	7,589,056
Property, plant and equipment (note 5)	21,220,889	9,669,876
Grant receivable (note 16)	2,053,377	-
Future income taxes (note 13)	909,536	-
Deferred start-up costs	821,008	-
Other assets	55,681	104,105
	$ 108,334,189	**$ 17,363,037**
Liabilities and Shareholders' Equity		
Current liabilities		
Bank loan (note 6)	$ 1,262,205	$ 1,040,000
Accounts payable and accrued liabilities (note 7)	7,486,227	2,299,605
Income taxes payable	1,754,114	1,105,695
Current portion of long-term debt (note 8)	578,922	538,060
Current portion of other long-term liabilities (note 9)	270,251	539,565
Future income taxes (note 13)	-	40,000
	11,351,719	5,562,925
Long-term debt (note 8)	4,547,028	3,236,393
Other long-term liabilities (note 9)	127,906	264,252
Deferred revenue (note 10)	753,606	-
Future income taxes (note 13)	-	753,000
	16,780,259	9,816,570
Shareholders' Equity		
Share capital (note 11)	81,788,694	998,338
Contributed surplus (note 12)	242,136	81,782
Retained earnings	9,523,100	6,466,347
	91,553,930	7,546,467
	$ 108,334,189	**$ 17,363,037**

Commitments (note 17)
Subsequent event (note 21)
The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board:

SIGNED:

Jacques L'Écuyer, Director

SIGNED:

Jean-Marie Bourassa, Director

Consolidated Statements of Cash Flows

Years ended May 31

(in Canadian dollars)	2008	2007
Cash flows from operating activities		
Net earnings	$ 7,766,137	$ 3,574,082
Adjustments for:		
Future income taxes	(12,154)	234,000
Depreciation of property, plant and equipment	1,048,886	869,974
Loss (gain) on disposal of property, plant and equipment	38,766	(7,020)
Other amortizations	33,027	16,681
Deferred revenue	753,606	-
Stock-based compensation	251,998	50,750
	9,880,266	4,738,467
Net changes in non-cash working capital items		
Accounts receivable	(6,073,430)	98,150
Inventories	(9,419,754)	(253,727)
Prepaid expenses	(144,560)	(155,594)
Accounts payable and accrued liabilities	3,555,078	379,341
Income taxes	792,446	1,213,666
	(1,409,954)	6,020,303
Cash flows from financing activities		
Net change in bank loan	222,205	(1,090,000)
Net change in other assets and long-term liabilities	(405,660)	28,443
Increase in long-term debt, net of related financial expenses	8,400,000	-
Repayment of long-term debt	(7,045,610)	(1,659,178)
Deferred financing fees	(64,990)	(10,500)
Purchase of shares	(70,063)	-
Issuance of shares, net of issue expenses of $5,135,533	75,644,793	945
Dividends paid	(1,000,000)	(74,080)
Grants - property, plant and equipment	616,726	202,744
	76,297,401	(2,601,626)
Cash flows from investing activities		
Additions to property, plant and equipment	(16,004,152)	(1,695,839)
Proceeds from disposal of property, plant and equipment	-	16,845
Deferred start-up costs	(821,008)	-
Deposits	(12,476)	15,520
	(16,837,636)	(1,663,474)
Net increase in cash and cash equivalents	58,049,811	1,755,203
Cash and cash equivalents (bank overdraft), beginning of year	1,526,932	(228,271)
Cash and cash equivalents, end of year	$ 59,576,743	$ 1,526,932
Supplementary information		
Property, plant and equipment not paid and included in accounts payable and accrued liabilities	$ 1,715,915	$ -
Interest paid	$ 301,515	$ 460,396
Income taxes paid (recovered)	$ 2,105,015	$ (107,587)

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

Notes to Consolidated Financial Statements

(In Canadian dollars)

1. Company Reorganization

On October 1, 2007, 5N Plus Inc., and 6367909 Canada Inc. both held by the same shareholders with identical ownership interests, amalgamated. The new entity arising from this amalgamation operates under the name of 5N Plus Inc. (“the Company”). Accordingly, the comparative figures reflect this amalgamation. 5N Plus Inc. became a public company during an initial public offering (“IPO”) on December 20, 2007.

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”).

a) Consolidated financial statements

These consolidated financial statements include the accounts of 5N Plus Inc. and the wholly-owned subsidiary 5N PV GmbH. All significant intercompany transactions and balances have been eliminated.

b) Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and balances with banks as well as all highly liquid short-term investments with original maturities of three months or less. They are accounted for at their estimated fair value which approximates cost.

c) Inventories

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

d) Property, plant and equipment

Property, plant and equipment are recorded at cost. Equipment under capital leases is recorded at the discounted value of minimum rental payments. Depreciation is calculated under the straight-line method at the following annual rates:

	Periods
Buildings	25 years
Leasehold improvements	10 to 20 years
Production equipment	10 years
Automotive equipment	10 years
Furniture and office equipment	3, 5 and 10 years
Computer equipment	3 years

(In Canadian dollars)

e) Deferred costs

Since December 1, 2007, the expenditures incurred during the start-up period of our new German subsidiary are deferred and will be amortized on a straight-line basis over twenty-four months upon commencement of commercial operations.

f) Impairment and disposal of long-lived assets

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

g) Revenue recognition

Under the terms of the agreements entered into with customers, the Company produces and sells a range of metals and compounds that have to meet specific requirements. The Company considers that all the material risks and advantages inherent in ownership are transferred to these customers at the time of their receipt of the products or delivery in accordance with the terms of the agreements.

h) Research and development

Research expenditures are expensed as incurred. They include a reasonable proportion of indirect costs. Development expenditures are deferred when they meet the capitalization criteria provided for by Canadian GAAP, and it is considered reasonably certain that future advantages will be realized. As at May 31, 2008 and 2007, no development expenses were deferred.

i) Foreign exchange

Foreign-denominated monetary assets and liabilities are translated into Canadian dollars at the exchange rates prevailing at the balance sheet date. Non-monetary foreign-denominated assets and liabilities are translated at the exchange rates prevailing on the transaction date. Foreign-denominated revenues and expenses are translated at the exchange rate in effect on the transaction date. Foreign exchange gains and losses are included in the determination of earnings.

The foreign subsidiary is considered an integrated foreign operation and is translated using the temporal method. Accordingly, gains and losses are accounted for in earnings.

j) Income taxes

Income taxes are provided for using the liability method. Under this method, differences between the accounting and the income tax bases of the Company's assets and liabilities are recorded using the substantially enacted tax rates anticipated to be in effect when the tax differences are expected to reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

(In Canadian dollars)

k) Guarantees

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

A liability is recorded when the Company considers probable that a payment relating to a guarantee has to be made to the other party of the contract or agreement.

l) Stock-based compensation and other stock-based payments

The Company accounts for the cost of stock-based compensation awards granted to employees and non-employees using the estimated average fair value method based on the Black-Scholes model. Under this method, compensation costs are calculated at their fair value on the grant date and are expensed over the period of acquisition of the awards.

m) Earnings per share

Basic earnings per share are determined using the weighted average number of common shares outstanding during the fiscal year. Diluted earnings per share are computed in a manner consistent with basic earnings per share, except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding options and warrants were exercised, and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting year. The dilutive effect of the convertible notes is reflected in diluted earnings per share by application of the “if-converted” method, if dilutive. Under the if-converted method, convertible notes are assumed to have been converted at the beginning of the period (or at time of issuance, if later) and the resulting common shares are included in the denomination for purposes of calculating diluted earnings per share.

n) Government assistance

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

o) Use of estimates

The preparation of financial statements in conformity with 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 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 lives of long-lived assets, as well as assessing the recoverability of accounts receivable, research tax credits and future income taxes. 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 those estimates.

(In Canadian dollars)

p) Changes in accounting policies

On June 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1530, “Comprehensive Income”, CICA Handbook Section 3251, “Equity”, CICA Handbook Section 3855, “Financial Instruments - Recognition and Measurement”, CICA Handbook Section 3861, “Financial Instruments - Disclosure and Presentation”, and CICA Handbook Section 3865, “Hedges”. These new CICA Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Handbook Section 1530 also establishes standards for reporting and displaying comprehensive income. Comprehensive income is defined as the change in equity from transactions and other events from non-shareholder sources. “Other comprehensive income” refers to items recognized in comprehensive income, but that are excluded from net income calculated in accordance with generally accepted accounting principles.

Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included in the consolidated balance sheet and are measured either at fair market value with the exception of loans and receivables, investments held-to-maturity and other financial liabilities, which are measured at amortized cost. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held-for-trading financial investments are measured at fair value and all gains and losses are included in net income in the period in which they arise.

Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in other comprehensive income until the assets are removed from the balance sheet.

The standards also require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as a normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized in earnings unless specific hedge criteria are met, which requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

The adoption of standards of Sections 1530, 3251, 3855, 3861 and 3865 had no significant impact on the consolidated financial statements for the year ended May 31, 2008.

q) Future accounting changes

The CICA published the following new sections that apply to the Company’s interim and annual financial statements relating to fiscal years beginning on or after June 1, 2008.

a) Section 1400, “General Standards on Financial Statement Presentation”, has been amended to include requirements to assess and disclose an entity’s ability to continue as a going concern.

b) Section 1535, “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure of the entity’s objectives, policies and processes for managing capital as well as summary quantitative data on the elements included in the management of capital. The section seeks to establish whether the entity has complied with capital requirements and if not, the consequences of such non-compliance.

(In Canadian dollars)

c) Section 3031, “Inventories”, provides guidance on the determination of cost and the subsequent recognition as an expense, including any write-down to net realizable value. The standard also permits the reversal of previous write-downs when there is a subsequent increase in the value of inventories. Finally, the standard provides guidance on the cost formulas that are used to assign costs to inventories and requires the consistent use of inventory policies by type of inventory with similar nature and use.

d) Section 3862, “ Financial Instruments - Disclosures”, describes the required disclosures to evaluate the significance of financial instruments for the entity’s financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

e) Section 3863, “Financial Instruments - Presentation”, establishes standards for the presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, “Financial Instruments - Disclosure and Presentation”.

The Company has concluded that these new standards will not significantly impact the Company’s future financial position or its results of operations.

June 1, 2011 will be the changeover date from Canadian GAAP to International Financial Reporting Standards (“IFRS”) for us. As of today, we have not evaluated the impact of these new standards.

3. Accounts Receivable

		2008		2007
Trade accounts receivable	$	6,380,487	$	2,239,884
Commodity taxes		2,203,808		165,757
Grant receivable (note 16)		1,540,760		-
Other		39,507		144,729
	$	**10,164,562**	**$**	**2,550,370**

4. Inventories

		2008		2007
Raw materials	$	9,809,207	$	1,856,925
Finished goods		2,918,357		1,450,885
	$	**12,727,564**	**$**	**3,307,810**

(In Canadian dollars)

5. Property, Plant and Equipment

	2008		
	Cost	Accumulated depreciation	Net book value
Land	$ 534,380	$ -	$ 534,380
Building	4,497,408	398,714	4,098,694
Leasehold improvements	1,355,026	252,007	1,103,019
Production equipment	8,567,120	2,781,503	5,785,617
Automotive equipment	47,441	33,820	13,621
Furniture and equipment	107,336	24,936	82,400
Computer equipment	402,381	104,674	297,707
Construction project	13,430,327	-	13,430,327
Less: Grants and Government assistance (note 16)	(4,125,371)	-	(4,125,371)
Furniture and equipment under capital leases	43,179	42,684	495
	$ 24,859,227	**$ 3,638,338**	**$ 21,220,889**

	2007		
	Cost	Accumulated depreciation	Net book value
Land	$ 470,796	$ -	$ 470,796
Building	3,353,651	214,871	3,138,780
Leasehold improvements	955,109	175,538	779,571
Production equipment	7,142,012	2,064,943	5,077,069
Automotive equipment	37,764	27,092	10,672
Furniture and equipment	72,197	16,462	55,735
Computer equipment	183,223	133,072	50,151
Construction project	78,737	-	78,737
Furniture and equipment under capital leases	43,179	34,814	8,365
	$ 12,336,668	**$ 2,666,792**	**$ 9,669,876**

Depreciation of property, plant and equipment presented in the consolidated statement of earnings relates to the following activities:

	2008	2007
Cost of goods sold	$ 985,931	$ 813,331
Administrative expenses	57,061	50,941
Research and development expenses	5,894	5,702
	$ 1,048,886	**$ 869,974**

(In Canadian dollars)

6. Bank Loan

The Company has a Canadian line of credit available up to $3,500,000 at the Bank's prime rate plus 0.4% and a line of credit in euros up to €1,000,000 at the interbank offered rate plus 2.5%.

The Canadian line of credit is secured by accounts receivable, inventories and all the other assets and the line of credit in euros is secured by assets in Germany.

7. Accounts Payable and Accrued Liabilities

		2008		2007
Trade accounts payable and accrued liabilities	$	6,641,201	$	1,814,106
Salaries and vacations		845,026		485,499
	$	**7,486,227**	**$**	**2,299,605**

8. Long-Term Debt

		2008		2007
Loan at the lender's floating rate less 1.40%, repayable commencing June 17, 2008 in 120 monthly installments of $41,667, principal only, secured by a building.	$	4,997,107	$	-
Loan, effective interest rate of 5%, repayable until April 2010 in semi-annual installments of $24,967.		99,843		149,765
Loan, 6.8%, repayable until September 2008 in monthly installments of $5,825 principal and interest, secured by production equipment of a net book value of $204,807.		29,000		93,075
Loan reimbursed during the year which was secured by a building and personal guarantees of two shareholders in the amount of $273,000.		-		2,803,875
Loan reimbursed during the year which was secured by a building and personal guarantees of two shareholders in the amount of $45,000.		-		207,500
Notes payable to shareholders paid during the year, prime rate of the BDC plus 0.25%, convertible into Class A shares at the price of $11 per share as of April 2008.		-		300,000
Loan, 6.61%, reimbursed during the year which was secured by, property plant and equipment.		-		220,238
		5,125,950		3,774,453
Current portion of long-term debt		(578,922)		(538,060)
	$	**4,547,028**	**$**	**3,236,393**

Installments to be paid over the next fiscal years ended May 31 are as follows:

2009	$	578,922
2010	$	549,921
2011	$	500,000
2012	$	500,000
2013	$	500,000
Thereafter	$	2,497,107

(In Canadian dollars)

The Company is required to maintain certain ratios in order to comply with the respective loan agreements. As of May 31, 2008, the Company complied with the terms and conditions of the loans.

9. Other Long-Term Liabilities

	2008	2007
Deposit received from a customer, effective interest rate of 5%, repayable in U.S. dollars, at the rate of $70 per kilogram of sales made to this customer until April 2010.	$ 279,593	$ 428,491
Deposit received from a customer, effective interest rate of 5%, repayable in U.S. dollars by May 2009.	118,038	230,029
Deposits received from other customers	-	138,990
Other	526	6,307
Total	398,157	803,817
Current portion	(270,251)	(539,565)
	$ 127,906	**$ 264,252**

10. Deferred Revenue

Our 5N PV GmbH wholly-owned German subsidiary received €540,000 from a German company for the creation of new jobs. This deferred income will be amortized over a three-year period in conjunction with the creation of new jobs at our German plant. A letter of credit for the same amount was issued in favor of the German company in the event that 5N PV GmbH is not able to comply with the terms of this agreement. As of May 31, 2008, an amount of €23,542 was recognized as revenue.

11. Share Capital

Authorized

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

An unlimited number of Class B shares, with no par value, non-participating, without voting rights and retractable at an amount determined according to a formula taking into account the Company's income and net book value.

Issued and fully paid

	Number	Amount
Common shares		
Outstanding as at May 31, 2007 and 2006	29,635,954	$ 963,756
Issuance of shares following the IPO	11,500,000	34,500,000
Issuance of shares following a bought deal	4,000,000	46,200,000
Issuance of shares following the conversion of Class B shares	364,046	124,938
Outstanding as at May 31, 2008	**45,500,000**	**$ 81,788,694**
Class B shares		
Outstanding as at May 31, 2006	182,909	$ 18,231
Issuance of shares pursuant to options	68,591	16,351
Outstanding as at May 31, 2007	251,500	34,582
Issuance of shares pursuant to options	135,181	94,369
Repurchases from shareholders	(22,635)	(4,013)
Conversion of Class B shares in common shares	(364,046)	(124,938)
Outstanding as at May 31, 2008	**-**	**$ -**

(In Canadian dollars)

The number of common shares and Class B shares outstanding and the weighted average number of common shares, basic and diluted outstanding as well as the calculation of net earnings per basic and diluted shares were adjusted retroactively taking into consideration the stock split following the IPO.

a) Share issue

During the year ended May 31, 2008, the Company issued 135,181 Class B shares (68,591 for the year ended May 31, 2007) for a cash consideration of $2,726 ($945 for the year ended May 31, 2007) upon the exercise of stock options. The amount previously recorded in contributed surplus of $91,644 ($15,406 in 2007) relating to these exercised options has been reclassified into share capital.

b) Repurchases from shareholders

The Company purchased 22,635 Class B shares for a cash consideration of $70,063 of which $66,050 was recorded as a reduction of retained earnings and $4,013 as a reduction of share capital.

c) Stock option plan

In October 2007, the Company introduced a new stock option plan for directors, officers and employees. The maximum number of common shares that can be issued upon the exercise of options granted is equal to 10% of the aggregate number of common shares issued and outstanding from time-to-time. The maximum period during which an option may be exercised is ten years from the date of the grant. On December 20, 2007 the Company granted 1,042,200 options at a price of $3.00 per option. Options vest at a rate of 25% (100% for the directors) per year, beginning one year following the grant date of the options.

Compensation costs related to these granted stock options on December 20, 2007 were computed using the Black-Scholes option valuation model using the following assumptions: expected volatility; 72%, dividend; nil, risk free interest rate; 4.25% (4.00% for the directors), expected life; 3.5 years (one year for the directors). The related stock-based compensation cost of $242,136 (including $106,175 for the directors) for the period of twelve months ending May 31, 2008 was recorded as an expense and as an increase to the contributed surplus.

The weighted average fair value of the options granted during the year was $1.42.

	Stock options		Weighted average exercise price
As at May 31, 2007	10,750	$	0.26
Granted	1,042,200		3.00
Cancelled	(9,700)		(3,00)
Exercised	(10,750)		(0.26)
As at May 31, 2008	**1,032,500**	**$**	**3.00**

Stock-based compensation cost is allocated as follows:

		2008		2007
Cost of goods sold	$	59,839	$	19,107
Selling and administrative expenses		163,897		15,567
Research and development expenses		28,262		16,076
	$	**251,998**	**$**	**50,750**

(In Canadian dollars)

12. Contributed surplus

Years ended May 31	2008	2007
Opening balance	$ 81,782	$ 46,438
Compensation costs related to stock options	251,998	50,750
Options exercised	(91,644)	(15,406)
Closing balance	**$ 242,136**	**$ 81,782**

13. Income taxes

The following table reconciles the difference between the statutory tax rate and the effective tax rate used by the Company in the determination of net income:

	2008	2007
Statutory tax rate	31.3%	32.0%
Increase (decrease) resulting from:		
Non-deductible expenses	0.8	0.3
Change in future income tax balances due to a change in enacted tax rates	(0.3)	(0.4)
Effect of non-recognition (recognition) of losses of a foreign subsidiary for the year ended May 31, 2007	(0.8)	1.9
Non-taxable research and development tax credits	(0.2)	(0.4)
Difference of rate applicable to the foreign subsidiary, small business deduction and other	(0.5)	(0.2)
	30.3%	**33.2%**

The tax effects of significant items comprising the Company's net future income tax balances are as follows:

	2008	2007
Future income tax assets		
Losses carried forward	$ 219,825	$ 135,000
Property, plant and equipment	798,536	-
Share issue expenses	1,348,172	-
Other	21,828	-
	2,388,361	135,000
Valuation allowance	-	(96,000)
	2,388,361	39,000
Future income tax liabilities		
Property, plant and equipment	(919,104)	(742,000)
Investment tax credits	(83,500)	(66,000)
Other	(19,896)	(24,000)
	(1,022,500)	(832,000)
Net future income tax assets (liabilities)	**$ 1,365,861**	**$ (793,000)**

(In Canadian dollars)

The current and long-term future income tax assets and liabilities are as follows:

	2008	2007
Future income tax assets		
Short-term	$ 456,325	$ -
Long-term	909,536	-
	1,365,861	-
Future income tax liabilities:		
Short-term	-	(40,000)
Long-term	-	(753,000)
	-	(793,000)
	$ 1,365,861	**$ (793,000)**

14. Financial Instruments:

a) Credit risk and significant customers

The Company is exposed to a credit risk with its accounts receivable. The Company has entered into an agreement with Export Development Canada ("EDC") pursuant to which EDC insures the risk of loss of up to 90% of the accounts receivable of certain customers in the event of non-payment, up to a maximum of $1,500,000. In addition, management evaluates each account individually and considers that no provision for doubtful accounts is necessary under the circumstances.

Three customers represented approximately the following percentages of sales and accounts receivable:

Years ended May 31	2008	2007
Percentage of sales	80%	73%

As at May 31	2008	2007
Percentage of accounts receivable	64%	70%

b) Interest rate risk

The Company is exposed to a risk of interest rate fluctuations on the bank loan and certain long-term liabilities. However, a change of 1% would not materially affect the Company's net earnings, retained earnings and cash flows.

A loan of $99,843 included in the long-term debt bears a fixed interest rate. The risk of exposure to interest rate fluctuations is therefore limited.

c) Price risk

The Company is exposed to a risk of fluctuations in market prices for metals. To reduce this risk, it has signed agreements with set prices for certain customers and raw materials suppliers.

(In Canadian dollars)

d) Exchange risk

The Company makes approximately 97% of its sales and 100% of its raw materials purchases in foreign currencies. Accordingly, certain assets, liabilities, revenues and expenses are exposed to currency rate fluctuations. As at May 31, 2008, it was anticipated that the following assets and liabilities would be realized, recoverable or payable as follows:

	Euros	U.S. dollars
Cash	949,440	1,615,352
Accounts receivable	566,183	5,369,097
Bank loan	869,092	-
Accounts payable and accrued liabilities	897,820	3,264,612

e) Fair value

Fair value estimates are made at a specific point in time, using available information about the financial instrument. These estimates are subjective in nature and often cannot be determined with precision.

The Company has determined that the carrying value of its short-term financial assets and liabilities, including cash, accounts receivable and other receivables, as well as accounts payable and accrued liabilities, approximates their fair value because of the relatively short period to maturity of these instruments.

The fair value of the long-term debt and deposits received from a customer at variable interest rates approximates their carrying value because rates vary in relation with the market conditions.

The fair value of the long-term debt and obligations under capital leases at fixed interest rates approximates their carrying value as the Company's borrowing terms and conditions reflect current market conditions.

The fair value of long-term debt and other long-term liabilities received, without interest, approximated their carrying value as at May 31, 2008 and was estimated at $990,000 as at May 31, 2007 (carrying value of $1,108,000).

15. Financing Expenses

Years ended May 31		**2008**		**2007**
Interest and bank charges	$	90,599	$	88,202
Foreign exchange (gain) loss		(124,710)		162,001
Interest on long-term debt		258,259		401,743
Amortization of deferred charges		12,045		14,500
	$	**236,193**	**$**	**666,446**

16. Government Assistance

During the years ended May 31, 2008 and 2007, the Company recorded research and development tax credits amounting to $499,079 and $430,000 respectively. These tax credits are subject to review and approval from taxation authorities.

During the years ended May 31, 2008 and 2007, the Company received grants from Investissement Québec totaling $85,492 and $202,744, respectively. These grants were recorded as a reduction of property, plant and equipment.

During the year ended May 31, 2008, the Company recorded, in its German subsidiary, two grants received from the tax authorities and economic support groups totaling $4,125,371, of which an amount of $531,234 was paid to 5N PV GmbH. A balance of $3,594,137 remains outstanding of which the current portion amounts to $1,540,760. The remaining $2,053,377 is recorded as a long-term receivable and is expected to be received during fiscal year ending May 31, 2010.

(In Canadian dollars)

17. Commitments

a) The Company rents certain premises and equipment under the terms of operating leases expiring in May 2012 for the premises with options to renew and June 2013 for the equipment. Future minimum payments excluding operating costs for the next years are as follows:

2009	$	662,030
2010		584,166
2011		584,166
2012		584,166
2013		182,114
Thereafter		15,176
	$	**2,611,818**

b) As at May 31, 2008, the Company had placed orders with suppliers for the purchase of fixed assets in the aggregate amount of $1,186,184.

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

18. Earnings Per Share

Years ended May 31		**2008**		**2007**
Numerator				
Net earnings	**$**	**7,766,137**	**$**	**3,574,082**
Denominator				
Weighted average number of common shares		35,308,641		29,635,954
Effect of dilutive securities				
Stock options		321,319		-
Convertible notes		1,254,816		2,273,577
		36,884,776		**31,909,531**
Earnings per share				
Basic	$	0.22	$	0.12
Diluted	$	0.21	$	0.11

19. Related Party Transactions

In the normal course of its activities, the Company has concluded the following transactions with a corporate shareholder which was until December 20, 2007 under terms and conditions agreed upon between the parties:

Years ended May 31		**2008**		**2007**
Sales	**$**	**1,129,323**	$	1,517,395
Purchases	**$**	**28,698**	$	106,633
Interest expenses	**$**	**19,179**	$	35,842

As at May 31		**2008**		**2007**
Accounts receivable	**$**	**-**	$	216,917
Accounts payable and accrued liabilities	**$**	**-**	$	52,761

Notes to Consolidated Financial Statements

(In Canadian dollars)

20. Segment information

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

Years ended May 31		2008		2007
Geographical information				
Sales to customers located in the following geographical areas				
United States	$	15,526,294	$	15,283,537
Europe		12,521,891		3,314,200
Asia		634,251		1,118,738
Canada		979,822		191,239
Other countries		1,310,683		1,989,526
	$	**30,972,941**	**$**	**21,897,240**

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

As of May 31		2008		2007
Property, plant and equipment in the following countries				
Canada	$	11,501,758	$	9,410,632
Germany		9,719,131		259,244
	$	**21,220,889**	**$**	**9,669,876**

21. Subsequent event

Financial instruments

On June 9, 2008, the Company concluded a foreign currency forward contract totaling €4,500,000 at an average conversion rate of 1.58. This foreign currency forward contract of €500,000 by month will be effective from September 15, 2008 until May 15, 2009.

22. Comparative Figures

Certain figures, previously reported on for 2007, have been reclassified to conform with the current year's presentation.