**5N PLUS INC.**
**Interim Consolidated Financial Statements**
**Three month periods ended August 31, 2008 and 2007**
**(unaudited)**

**5N PLUS INC.**
**Interim Consolidated Statements of Earnings**
**Periods ended August 31, 2008 and 2007**
(unaudited)

| | Three months | |
|---|---|---|
| (in Canadian dollars) | **2008** | 2007 |
| Sales | **$ 14,029,875** | $ 6,394,473 |
| Cost of goods sold | **6,398,051** | 3,417,039 |
| Gross profit | **7,631,824** | 2,977,434 |
| Expenses | | |
| Selling and administrative | **1,187,267** | 471,961 |
| Research and development | **225,212** | 411,715 |
| Financial (note 8) | **(301,287)** | 136,767 |
| Interest income | **(409,177)** | - |
| Depreciation of property, plant and equipment | **373,352** | 241,302 |
| Amortization of deferred start-up costs | **50,341** | - |
| | **1,125,708** | 1,261,745 |
| Earnings before undernoted items | **6,506,116** | 1,715,689 |
| Start-up costs, new plant | **206,390** | 71,341 |
| Earnings before income taxes | **6,299,726** | 1,644,348 |
| Income taxes | | |
| Current | **1,743,824** | 474,092 |
| Future | **226,817** | 71,000 |
| | **1,970,641** | 545,092 |
| Net earnings | **$ 4,329,085** | $ 1,099,256 |
| Earnings per share (note 5) | | |
| Basic | **$ 0,10** | $ 0,04 |
| Diluted | **$ 0,09** | $ 0,03 |
| Weighted average number of common shares (note 5) | | |
| Basic | **45,500,000** | 29,635,954 |
| Diluted | **46,130,815** | 31,909,531 |

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

**5N PLUS INC.**
**Interim Consolidated Statements of Comprehensive Income**
**Periods ended August 31, 2008 and 2007**
(unaudited)

| | Three months | |
|---|---|---|
| (in Canadian dollars) | **2008** | 2007 |
| Net earnings | **$ 4,329,085** | $ 1,099,256 |
| Unrealized gain on translating financial statements of self-sustaining foreign operation | **18,556** | - |
| Comprehensive income | **$ 4,347,641** | $ 1,099,256 |

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

**5N PLUS INC.**
**Interim Consolidated Statements of Retained Earnings**
**Periods ended August 31, 2008 and 2007**
(unaudited)

| | Three months | |
|---|---|---|
| (in Canadian dollars) | **2008** | 2007 |
| Retained earnings, beginning of period | **$ 9,523,100** | $ 6,466,347 |
| Net earnings | **4,329,085** | 1,099,256 |
| Excess of purchase price over stated value of shares purchased by the Company | **-** | (66,050) |
| Retained earnings, end of period | **$ 13,852,185** | $ 7,499,553 |

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

**5N PLUS INC.**
**Interim Consolidated Balance Sheets**

| (in Canadian dollars) | As at August 31, 2008 (unaudited) | As at May 31, 2008 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 50,180,020** | $ 59,576,743 |
| Accounts receivable | **10,520,586** | 10,164,562 |
| Inventories (note 2) | **18,920,058** | 12,727,564 |
| Prepaid expenses and deposits | **1,085,597** | 348,504 |
| Future income taxes | **329,417** | 456,325 |
| | **81,035,678** | 83,273,698 |
| Property, plant and equipment (note 3) | **25,024,823** | 21,220,889 |
| Grant receivable | **2,069,042** | 2,053,377 |
| Future income taxes | **809,627** | 909,536 |
| Deferred start-up costs | **1,146,973** | 821,008 |
| Other assets | **39,506** | 55,681 |
| | **$ 110,125,649** | $ 108,334,189 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Bank loan | **$ 887,122** | $ 1,262,205 |
| Accounts payable and accrued liabilities | **5,782,390** | 7,486,227 |
| Income taxes payable | **1,232,951** | 1,754,114 |
| Current portion of long-term debt | **561,457** | 578,922 |
| Current portion of other long-term liabilities | **164,859** | 270,251 |
| | **8,628,779** | 11,351,719 |
| Long-term debt | **4,425,311** | 4,547,028 |
| Other long-term liabilities | **33,211** | 127,906 |
| Deferred revenue | **764,363** | 753,606 |
| | **13,851,664** | 16,780,259 |
| **Shareholders' Equity** | | |
| Share capital | **81,788,694** | 81,788,694 |
| Contributed surplus (note 4) | **382,131** | 242,136 |
| Unrealized foreign currency translation gain (note 6) | **250,975** | - |
| Retained earnings | **13,852,185** | 9,523,100 |
| | **96,273,985** | 91,553,930 |
| | **$ 110,125,649** | $ 108,334,189 |

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

**5N PLUS INC.**
**Interim Consolidated Statements of Cash Flows**
**Periods ended August 31, 2008 and 2007**
(unaudited)

| (in Canadian dollars) | Three months 2008 | 2007 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net earnings | **$ 4,329,085** | $ 1,099,256 |
| Adjustments for: | | |
| Future income taxes | **226,817** | 71,000 |
| Depreciation of property, plant and equipment | **373,352** | 241,302 |
| Loss on disposal of property, plant and equipment | **-** | 38,773 |
| Amortization of deferred start-up costs and others | **50,341** | 1,835 |
| Amortization of deferred revenue | **(41,243)** | - |
| Stock-based compensation | **139,995** | 4,931 |
| | **5,078,347** | 1,457,097 |
| **Net change in non-cash working capital items** | | |
| Accounts receivable | **(356,024)** | (1,039,254) |
| Inventories | **(6,192,494)** | (304,953) |
| Prepaid expenses | **(737,093)** | (93,633) |
| Accounts payable and accrued liabilities | **(730,336)** | 110,744 |
| Income taxes payable | **(521,163)** | (813,407) |
| | **(3,458,763)** | (683,406) |
| **Cash flows from financing activities** | | |
| Net change in bank loan | **(375,083)** | (1,040,000) |
| Net change in other assets and long-term liabilities | **(200,087)** | (21,422) |
| Increase in long-term debt, net of related financial expenses | **-** | 3,400,000 |
| Repayment of long-term debt | **(139,182)** | (325,124) |
| Others | **71,066** | - |
| Deferred financing fees | **-** | (55,000) |
| Purchase of shares | **-** | (70,063) |
| Issuance of shares | **-** | 1,800 |
| | **(643,286)** | 1,890,191 |
| **Cash flows from investing activities** | | |
| Additions to property, plant and equipment | **(4,918,368)** | (797,791) |
| Deferred start-up costs | **(376,306)** | - |
| | **(5,294,674)** | (797,791) |
| Net (decrease) increase in cash and cash equivalents | **(9,396,723)** | 408,994 |
| Cash and cash equivalents, beginning of period | **59,576,743** | 1,526,932 |
| Cash and cash equivalents, end of period | **$ 50,180,020** | $ 1,935,926 |
| **Supplementary information** | | |
| Property, plant and equipment not paid and included in accounts payable and accrued liabilities | **$ 742,414** | $ - |
| Interest paid | **$ 74,274** | $ 97,562 |
| Income taxes paid | **$ 1,619,759** | $ 1,124,000 |

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

## 1. Summary of Significant Accounting Policies

The unaudited interim consolidated financial statements of the Company, for the three-month periods ended August 31, 2008 and 2007, have been prepared in accordance with the Canadian generally accepted accounting principles (“GAAP”) and should be read in conjuction with the May 31, 2008 audited annual consolidated financial statements.

The accounting policies are the same as those used for the May 31, 2008 audited annual consolidated financial statements, with the exception of the accounting changes listed below.

### Changes in accounting policies

On June 1, 2008, the Company adopted the following sections of the Canadian Institute of Chartered Accountants «CICA» Handbook:

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.

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. The cash and cash equivalents have been classified as available-for-sale assets. The Company does not carry any loans receivable, and its accounts receivable and grant receivables are measured at amortized cost, which approximates cost. The Company's accounts payable and accrued liabilities, income taxes payable and the long-term debt have been classified as other financial liabilities and are, therefore, measured at amortized cost.

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 adoption of these new standards did not significantly impact the Company's financial position or its results of operations.

### Future accounting changes policies

a) In January 2008, the CICA issued Section 3064 “Goodwill and Intangible Assets”,which replaces Section 3062 “Goodwill and Others Intangible Assets”, and results in the withdrawal of Section 3450 “Research and Development Costs”, and Emerging Issues Committee Abstract 27 “Revenues and Expenditures during the Pre-operating Period”, and amendments to Accounting Guideline No 11 “Enterprises in the Development Stage”. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The deferred start-up costs as at May 31, 2009 are estimated at $698,000 and will be writen-off as a result of the adoption of this new standard.

(in Canadian dollars)

**Future accounting changes policies**

b) In 2005, the Accounting Standards Board of Canada announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS"). In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards" into Canadian GAAP. This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian GAAP with IFRS. In February 2008, the CICA confirmed the change over date from current Canadian GAAP to IFRS to be January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed. As of today, we have not evaluated the impact of these new standards.

## 2. Inventories

| | As at August 31, 2008 | As at May 31 2008 (audited) |
|---|---|---|
| Raw materials | **$ 14,434,263** | $ 9,809,207 |
| Finished goods | **4,485,795** | 2,918,357 |
| | **$ 18,920,058** | $ 12,727,564 |

## 3. Property, Plant and Equipment

| | As at August 31, 2008 | | |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value |
| Land | **$ 540,116** | **$ -** | **$ 540,116** |
| Buildings | **10,963,526** | **471,602** | **10,491,924** |
| Leasehold improvements | **1,432,338** | **272,413** | **1,159,925** |
| Production equipment | **15,224,024** | **3,038,350** | **12,185,674** |
| Rolling stock | **47,441** | **35,353** | **12,088** |
| Furniture and equipment | **322,102** | **29,296** | **292,806** |
| Computer equipment | **463,080** | **120,902** | **342,178** |
| Furniture and equipment under capital leases | **43,179** | **43,067** | **112** |
| | **$ 29,035,806** | **$ 4,010,983** | **$ 25,024,823** |

| | As at May 31, 2008 (audited) | | |
|---|---|---|---|
| | Cost | Accumulated depreciation | Net book value |
| Land | $ 534,380 | $ - | $ 534,380 |
| Buildings | 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 |
| Rolling stock | 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 | (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 |

**5N PLUS INC.**
**Notes to Interim Consolidated Financial Statements**
(in Canadian dollars)
(unaudited)

## 4. Contributed surplus

| | Three months | |
|---|---|---|
| **Periods ended August 31, 2008 and 2007** | **2008** | **2007** |
| Opening balance | **$ 242,136** | $ 81,782 |
| Compensation costs related to stock options | **139,995** | 4,929 |
| Options exercised | **-** | (62,059) |
| Closing balance | **$ 382,131** | $ 24,652 |

## 5. Net Earnings Per Share

| | Three months | |
|---|---|---|
| **Periods ended August 31, 2008 and 2007** | **2008** | **2007** |
| **Numerator** | | |
| Net earnings | **$ 4,329,085** | $ 1,099,256 |
| Interest on notes payable, net of income taxes | **-** | 4,329 |
| | **$ 4,329,085** | $ 1,103,585 |
| **Denominator** | | |
| Weighted average number of common shares | **45,500,000** | 29,635,954 |
| **Effect of dilutive securities** | | |
| Stock options | **630,815** | - |
| Convertible notes | **-** | 2,273,577 |
| | **46,130,815** | 31,909,531 |
| **Earnings per share** | | |
| Basic | **$ 0.10** | $ 0.04 |
| Diluted | **$ 0.09** | $ 0.03 |

## 6. Unrealized foreign currency translation gain

| | Three months | |
|---|---|---|
| **Periods ended August 31, 2008 and 2007** | **2008** | **2007** |
| Translation from the temporal method to the current rate method a) | **$ 232,419** | $ - |
| Unrealized foreign currency translation gain for the period | **18,556** | - |
| Closing balance | **$ 250,975** | $ - |

a) As of June 1, 2008 following a reassessment of the criteria described in Section 1651 of the CICA Handbook "Foreign currency translation", the foreign subsidiary is considered a self-sustaining entity. The impact of the change from the temporal method to the current rate method resulted, as at June 1, 2008, in an adjustment of $232,419. This amount has been applied as a reduction in property, plant and equipment and as an increase in shareholders'equity under the caption unrealized foreign currency translation gain.

(in Canadian dollars)

### 7. Financial Instruments

#### 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 customers

The Company is exposed to credit risk that are mainly associated with its accounts receivable, which is the risk that a client will not be able to pay amounts in full when due. Financial instruments also subject to substantial credit risk are cash and cash equivalents. The Company considers credit risk to be limited for the following reasons:

a) The Company concluded an agreement with Export Development Canada ("EDC") which stipulates that EDC will assume a portion of risk losses for certain clients in case of non-payment, for an amount up to a maximum of $1,500,000 per year.

b) The Company does not require additional guarantee or other securities from its clients in regard to its accounts receivable. However, credits are granted to clients after status enquiry only. The Company conducts ongoing evaluations of its clients and establishes provisions for doubtful accounts should an account be considered not being recoverable.

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

| | Three months | |
|---|---|---|
| **Periods ended August 31, 2008 and 2007** | **2008** | 2007 |
| Percentage of sales | **84 %** | 78 % |
| | **As at August 31 2008** | As at May 31 2008 (audited) |
| Percentage of accounts receivable | **56 %** | 64 % |

#### Liquidity and financing risk

The Company has a conservative approach with regards to the management of its liquid assets. It makes use of short and long-term financing at several financial institutions. Should a significant decrease in cash and cash equivalents occur, the Company could make use of these facilities.

In Canada, the Company set up the following credit facilities:

a) Loan in the amount of $4,875,890 ($4,997,107 as at May 31, 2008) maturing in June 2018, secured by a building.

b) Credit margin of $3,500,000 unused as at August 31 and May 31, 2008.

In Germany, through its wholly-owned subsidiary, the Company set up the following credit facility:

Authorized credit margin of 1 000 000 Euros of which the balance used as at August 31, 2008 was 569,179 Euros (816,010 Euros as at May 31, 2008).

**Interest rate risk**

The issuance of 4,000,000 common shares in April 2008 generated gross proceeds of $46,200,000. Therefore, 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 the debt is at fixed rates. Management does not believe that the impact of interest rate fluctuations will be significant on its operating results.

**Currency risk**

The Company is exposed to currency risk on sales of Canadian-made products in US dollars and in Euros. The Company considers currency risk to be limited for the following reasons:

a) On June 9, 2008, the Company concluded a foreign currency forward contract totaling 4,500,000 Euros at an average conversion rate of 1.58. This foreign currency forward contract of 500,000 Euros by month will be effective from September 15, 2008 until May 15, 2009. During the quarter ended August 31, 2008 the Company recorded a gain in the amount of $138,213 in regards to this currency foreign exchange contract.

b) In terms of raw materials purchases, prices are mainly denominated in US dollars. The Company's purchases represent a natural hedge against sales in US dollars.

The Company had the following exposure on August 31, 2008:

| | 2008 US $ | 2008 Euros |
|---|---|---|
| Financial assets and liabilities measured at amortized costs: | | |
| Cash | $ 449,611 | $ - |
| Accounts receivable | 5,717,904 | 1,782,277 |
| Receivable from the wholly-owned subsidiary | - | 11,641,634 |
| Accounts payable and accrued liabilities | (1,899,473) | (86,257) |
| Other long-term liabilities | (186,401) | - |
| Total exposure from above | 4,081,641 | 13,337,654 |
| Forward exchange contracts | - | (4,500,000) |
| Gross exposure | $ 4,081,641 | $ 8,837,654 |

As at August 31, 2008 the US/Can. exchange rate was $1.0626.

Base on the above gross exposure as at August 31, 2008, a 5-cent increase in the Canadian dollar would result in a drecrease in net earnings of $ 140,000, while a 5-cent decrease would result in an increase of $ 140,000 in the net earnings.

As at August 31, 2008 the Euros/Can. exchange rate was $1.5586.

Base on the above gross exposure as at August 31, 2008, a 5-cent increase in the Canadian dollar would result in a decrease in net earnings of $ 300,000, while a 5-cent decrease would result in an increase of $ 300,000 in the net earnings.

**Price risk**

The Company is exposed to a risk of fluctuations in market prices for metals. This risk is managed by adequately forecasting and scheduling the acquisition of inventories to meet its contractual obligations to its customers.

(in Canadian dollars)

### 8. Financing Expenses

| | Three months | |
|---|---|---|
| **Periods ended August 31, 2008 and 2007** | **2008** | 2007 |
| Interest and bank charges | **$ 5,375** | $ 32,796 |
| Interest on long-term debt | **79,513** | 82,698 |
| Foreign exchange (gain) loss | **(247,962)** | 21,273 |
| Increase in fair value of foreign currency forward contract | **(138,213)** | - |
| | **$ (301,287)** | $ 136,767 |

### 9. Capital Management

The Company's objectives when managing capital are to deploy capital to provide an appropriate return on investment for its shareholders, maintain financial flexibility in order to preserve its ability to meet financial obligations, and maintain a capital structure that allows multiple financing options to the Company should a financing need arise in a context of acquisitions.

The Company defines its capital as follows: cash and cash equivalents, shareholders'equity and long-term debt.

The Company's financial strategy is designed to maintain a flexible capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In order to maintain or adjust its capital structure, the Company may issue new shares and raise additional debt.