



2013 Management Report



Management's Discussion and Analysis

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" or "5N Plus"), 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, 2013. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators

Information contained herein includes any significant developments to February 25, 2014, the date on which the MD&A was approved by the Company's board of directors. Unless otherwise indicated, the terms "we", "us" "our" and "the group" as used herein refer to the Company together with its subsidiaries.

The "Q4 2013" and the "Q4 2012" refer to the three-month periods ended December, 2013 and 2012. 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.

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, credit, interest rate, inventory pricing, commodity pricing, legal proceedings, currency fluctuation, fair value, 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 "Risk and Uncertainties" of 5N Plus' 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.

Overview

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, the 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 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 Asia. 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 derivative have been regrouped under the heading Corporate.

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Highlights of Q4 2013 and Fiscal Year 2013

- EBITDA¹ increased by \$26.1 million, from (\$18.1) million in Q4 2012 to \$7.9 million in Q4 2013 and by \$32.9 million, from (\$12.7) million in 2012 to \$20.2 million in 2013.
- Revenues decreased by \$9.2 million, or 7%, from \$128.6 million in Q4 2012 to \$119.4 million in Q4 2013 and by \$92.7 million, or 17%, from \$551.7 million in 2012 to \$459.0 million in 2013. These decreases are mainly due to lower commodity prices.
- Net debt¹ decreased by \$78.2 million, from \$136.5 million as at December 31, 2012 to \$58.3 million as at December 31, 2013. The Net debt¹ to adjusted EBITDA¹ ratio improved in 2013, from 3.6 in 2012 to 1.9 in 2013.
- Net earnings of \$1.6 million and adjusted net earnings¹ of \$2.1 million in Q4 2013 compared to net losses of \$212.0 million and \$6.9 million in Q4 2012. Net earnings of \$42.8 million and adjusted net earnings of \$10.8 million in 2013 compared to net loss of \$227.9 million and adjusted net loss of \$2.9 million in 2012.
- Bookings¹ increased by 18% to \$156.1 million compared to \$132.1 million in the fourth quarter of last year. Backlog¹ as at December 31, 2013 stood at \$170.1 million which compares to backlog of \$165.8 million one year ago.
- On November 13, 2013, the Company was named for a fourth consecutive year as one of Canada's fastest growing technology companies in the Deloitte Technology Fast 50™ based on the percentage of revenue growth over five years. 5N Plus' increase in revenues of 1,681% from 2008 to 2012 resulted in a number 5 ranking. The Company was also ranked 101 on Deloitte's Technology Fast 500™, a list of the 500 fastest growing technology, media, telecommunications, life sciences and clean technology companies in North America.
- On October 24, 2013, the Company announced that it had entered into an exclusive long-term off-take agreement of bismuth with Masan Resources, one of the largest private sector natural resources companies in Vietnam.
- On July 9, 2013, the Company announced that it had entered into an exclusive option to acquire all of the issued and outstanding shares in the capital of AM&M Advanced Machine and Materials Inc., a corporation specialized in the manufacturing of micron size metallic powders.
- On June 18, 2013, the Company announced that it had entered into a full and final settlement agreement with former shareholders of MCP Group SA ("MCP"), in relation with the dispute previously announced by the Corporation on December 21, 2012.
- On June 11, 2013, the Company announced an investment in a new gallium chemicals facility located in South Korea and that it had entered into an agreement with a local chemical distributor for the supply of operating services and logistics of the new facility. This initiative was taken to meet the growing demand for gallium in LED manufacturing in North East Asia.

¹ See Non-IFRS Measures

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The Company ended the year with a relatively strong quarter with EBITDA levels reaching close to \$8 million and quarterly revenues at their highest level since the beginning of the year, reflecting a more favorable business environment despite the typical year-end demand softness patterns. 5N Plus was also able to continue its quarter-over-quarter reduction in net debt level which was cut by more than half during the year and now stands at less than \$60 million providing greater financial flexibility. Underlying commodity prices together with inventory levels are now more manageable enabling the Company to perform much more effectively than it has been able to ever since the transformational acquisition made in 2011. Combined with its efforts aimed at improving overall efficiency, instilling greater discipline and reducing costs, the Company was able to report positive net earnings for a fourth consecutive quarter and break the trend of impairment charges every alternating quarter. Although the latter remains somewhat dependent on underlying commodity pricing trends, and thus to some extent beyond the Company's control, 5N Plus believes that it is now much better positioned to anticipate and take advantage of these pricing trends in the future.

In its respective markets, bismuth sales volumes reached a record level in both the quarter and the year reflecting growing demand and increases in market share. Demand for solar products also remained healthy, despite some year-end decreases resulting from unusual customer buying patterns, with a relatively bullish outlook for 2014 as the solar industry gradually recovers and demonstrates its overall competitiveness in a number of unsubsidized markets. Combined sales of electronic metals, namely gallium, indium and germanium, also increased primarily as a result of higher sales of gallium and related chemicals for the LED market, a market which is expected to continue to grow in the future as the use of LEDs for general lighting applications expands. As for the germanium substrate business, the Company made great progress during the year and is now fully qualified with both of the main US based suppliers of space solar cells. Overall, this relatively bright outlook in terms of markets is further confirmed by the bookings recorded in the quarter which reached their highest levels since the last two years enabling the backlog to increase back to its June 2012 level despite lower average underlying commodity prices.

5N Plus continues to execute its strategic plan which aims to increase value added activities, broaden its footprint in Asia and expand its recycling business leveraging and its international platform. As a result, the Company announced during the year commissioning of its new facility in Korea, its plans to enter the ultrafine metal powder business through the acquisition of AM&M and its breakthrough atomization technology, and its exclusive long-term bismuth off-take agreement with Masan Resources. The Company also intends to develop, manufacture and market selenium based chemicals for the animal feed, fertilizer, glass and metallurgical industry. Related investments at its Lao facility are underway and the Company intends to produce and sell such products before year-end.

The Company would like to thank its employees for their dedication and hard work in what was a very challenging year. Fortunately through our combined efforts, the Company was able to make tremendous progress and now have every reason to be optimistic on its ability to increase shareholder value in the future. The Company also thanks its stakeholders and shareholders for their confidence and continued support.

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Historical Financial Information – Years Ended December 31

(in thousands of United States dollars except per share amounts)	2013	2012	7 months ended 2011
	\$	\$	\$
Consolidated Results			
Revenues	459,012	551,675	391,712
EBITDA ¹	20,193	(12,729)	2,625
Adjusted EBITDA ¹	30,375	37,856	37,415
Net earnings (loss) attributable to equity holders of 5N Plus	42,661	(227,738)	(21,641)
Basic earnings (loss) per share attributable to equity holders of 5N Plus	\$0.51	(\$2.91)	(\$0.31)
Net earnings (loss)	42,780	(227,849)	(22,464)
Basic earnings (loss) per share	\$0.51	(\$2.91)	(\$0.32)
Diluted earnings (loss) per share	\$0.51	(\$2.91)	(\$0.32)
Funds from operations ¹	20,033	25,393	27,338
Balance Sheet Data			
Total assets	365,240	385,396	782,344
Net debt (net cash) ¹	58,330	136,547	260,575
Retirement benefit obligation	15,887	16,667	12,850
Shareholders' equity	190,052	144,955	339,710

Quarterly Financial Information

(in thousands of United States dollars (except per share amounts))	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
	\$	\$	\$	\$	\$	\$	\$	\$
Revenues	119,416	108,570	112,637	118,389	128,620	120,744	140,076	162,235
EBITDA ¹	7,942	5,775	(3,639)	10,115	(18,121)	9,001	(20,474)	16,867
Adjusted EBITDA ¹	7,942	5,775	6,543	10,115	6,395	9,001	5,594	16,867
Net earnings (loss)	1,638	1,323	34,281	5,538	(211,953)	1,275	(22,062)	4,891
Basic earnings (loss) per share	\$0.02	\$0.02	\$0.41	\$0.07	(\$2.70)	\$0.02	(\$0.30)	\$0.07
Diluted earnings (loss) per share	\$0.02	\$0.02	\$0.41	\$0.07	(\$2.70)	\$0.02	(\$0.30)	\$0.07
Net earnings (loss) attributable to equity holders of 5N Plus	2,022	1,083	34,185	5,371	(212,006)	1,218	(21,922)	4,972
Basic earnings (loss) per share attributable to equity holders of 5N Plus	\$0.02	\$0.01	\$0.41	\$0.06	(\$2.71)	\$0.02	(\$0.29)	\$0.07
Adjusted net earnings (loss) ¹	2,068	1,517	959	6,296	(6,880)	648	(1,911)	5,250
Basic adjusted net earnings (loss) per share ¹	\$0.02	\$0.02	\$0.01	\$0.08	(\$0.08)	\$0.01	(\$0.03)	\$0.07
Backlog ¹	170,013	133,352	153,277	166,290	165,790	162,323	188,982	215,588

Summary of Results

	Q4 2013	Q4 2012	2013	2012
	\$	\$	\$	\$
Revenues	119,416	128,620	459,012	551,675
Operating expenses	111,474	122,225	428,637	513,819
Adjusted EBITDA ¹	7,942	6,395	30,375	37,856
Impairment of inventory	-	24,517	10,182	50,585
EBITDA ¹	7,942	(18,122)	20,193	(12,729)
Gain related to the settlement of the purchase price of MCP	-	-	(45,188)	-
Litigation and restructuring costs	569	932	4,068	2,781
Impairment of property, plant and equipment	-	39,239	-	39,239
Reversal of impairment of property, plant and equipment	-	-	-	(932)
Impairment of intangible assets and goodwill	-	165,507	-	165,507
Interest on long-term debt and other interest expense	1,779	1,463	8,524	8,828
Foreign exchange and derivative (gain) loss	525	(360)	(2,590)	2,759
Depreciation and amortization	2,419	5,628	10,686	21,159
Earnings (loss) before income tax	2,650	(230,531)	44,693	(252,070)
Income tax	1,012	(18,578)	1,913	(24,221)
Net earnings (loss)	1,638	(211,953)	42,780	(227,849)
Basic earnings (loss) per share	\$0.02	(\$2.70)	\$0.51	(\$2.91)
Diluted earnings (loss) per share	\$0.02	(\$2.70)	\$0.51	(\$2.91)

¹ See Non-IFRS Measures

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Revenues by Segment

	Q4 2013	Q4 2012	% Change	2013	2012	% Change
	\$	\$		\$	\$	
Electronic Materials Segment	46,264	55,254	-15%	179,368	232,013	-23%
Eco-Friendly Materials Segment	73,152	73,366	-2%	279,644	319,662	-13%
Total revenues	119,416	128,620	-7%	459,012	551,675	-17%

Revenues decreased by \$9.2 million, or 7%, from \$128.6 million in Q4 2012 to \$119.4 million in Q4 2013 and by \$92.7 million, or 17%, from \$551.7 million in 2012 to \$459.0 million in 2013. Demand for the Company's products remained strong throughout the quarter and year with record sales of bismuth bearing products but revenues were negatively impacted by lower commodity prices, competitive pressures on sales price and by the restructuring of a portion of the business which was the subject of a dispute with former shareholders of MCP.

The Electronic Materials segment revenues decreased by \$7.9 million, or 15%, from \$54.2 million in Q4 2012 to \$46.3 million in Q4 2013 due to exceptionally high sales volume of solar products in Q4 2012. The Eco-Friendly Materials segment delivered strong sales and reported record sales of bismuth bearing products in both Q4 2013 and 2013. Revenues remained stable compared to Q4 2012 despite lower commodity prices.

The Electronic Materials segment revenues decreased by \$52.6 million, or 23%, from \$232.0 million in 2012 to \$179.4 million in 2013. The Eco-Friendly Materials segment decreased by \$40.0 million, or 13%, from \$319.7 million in 2012 to \$279.6 in 2013. The decrease in revenues is due to the same factors mentioned above.

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

	Q4 2013	Q4 2012	2013	2012
	\$	\$	\$	\$
Net earnings (loss)	1,638	(211,953)	42,780	(227,849)
Basic net earnings (loss) per share	\$0.02	(\$2.71)	\$0.51	(\$2.91)
Adjusted net earnings (loss)	2,068	(6,880)	10,834	(2,893)
Basic adjusted net earnings (loss) per share	\$0.02	(\$0.08)	\$0.13	(\$0.04)

Net earnings increased by \$213.7 million, from (\$212.0) million in Q4 2012 to \$1.7 million in Q4 2013 and adjusted net earnings¹ increased by \$9.0 million, from (\$6.9) million in Q4 2012 to \$2.1 million in Q4 2013. The Company had recorded in Q4 2012 impairment charges of \$229.3 million.

Net earnings increased by \$270.6 million, from (\$227.9) million in 2012 to \$42.8 million in 2013 and adjusted net earnings¹ increased by \$13.7 million, from (\$2.9) million in 2012 to \$10.8 million in 2013. The Company had recorded impairment charges of \$255.3 million in 2012.

The decrease in operating expenses, SG&A, amortization and financial expenses was offset by lower gross profit due to the decline in commodity prices, competitive pressures on sales price and by the restructuring of a portion of the business which was the subject of a dispute with former shareholders of MCP.

The non-recurring gain of \$45.2 million recorded in the second quarter of 2013 resulting from the reduction of the purchase price of MCP announced on June 18, 2013, was partially offset by an inventory impairment charge of \$10.2 million recorded in the same quarter on bismuth and selenium. For 2012, the Company recorded an inventory impairment charge of \$50.6 million, mainly on bismuth, gallium, tellurium and selenium.

Impairment Charges

	Q4 2013	Q4 2012	2013	2012
	\$	\$	\$	\$
Impairment of inventories	-	24,517	10,182	50,585
Impairment of PPE	-	39,239	-	39,239
Impairment of intangible assets	-	40,597	-	40,597
Impairment of goodwill	-	124,910	-	124,910
Impairment charges	-	229,263	10,182	255,331

¹ See Non-IFRS Measures

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EBITDA and Adjusted EBITDA

	Q4 2013	Q4 2012	2013	2012
	\$	\$	\$	\$
Electronic Materials	4,006	(1,733)	22,316	10,903
Eco-Friendly Materials	6,474	(11,700)	6,253	(8,203)
Corporate	(2,538)	(4,689)	(8,376)	(15,429)
EBITDA¹	7,942	(18,122)	20,193	(12,729)
Electronic Materials	-	8,226	150	23,750
Eco-Friendly Materials	-	16,291	10,032	26,835
Inventory write-down	-	24,517	10,182	50,585
Electronic Materials	4,006	6,493	22,466	34,653
Eco-Friendly Materials	6,474	4,591	16,285	18,632
Corporate	(2,538)	(4,689)	(8,376)	(15,429)
Adjusted EBITDA¹	7,942	6,395	30,375	37,856

EBITDA increased to \$7.9 million and \$20.2 million in Q4 2013 and 2013 compared to (\$18.1) million and (\$12.7) million in Q4 2012 and 2012 respectively. The Company recorded in 2013 an inventory write-down of \$10.2 million compared to \$50.6 million in 2012. Cost reduction initiatives were offset by gross margin pressure and by lower levels of profitability due to fully valued inventories resulting from the decreasing trend in underlying commodity pricing. EBITDA was also negatively impacted by the restructuring of a portion of the business which was the subject of a dispute with the former shareholders of MCP.

Bookings and Backlog

	BACKLOG ¹			BOOKINGS ¹		
	Q4 2013	Q3 2013	Q4 2012	Q4 2013	Q3 2013	Q4 2012
	\$	\$	\$	\$	\$	\$
Electronic Materials	80,382	72,309	100,718	54,337	31,588	59,342
Eco-Friendly Materials	89,691	61,043	65,072	101,800	57,057	72,744
Total	170,073	133,352	165,790	156,137	88,645	132,086

Bookings recorded in the quarter reached their highest levels since the last two years enabling the backlog to increase back to its June 2012 level despite lower average underlying commodity prices.

Q4 2013 vs Q4 2012

Backlog as at December 31, 2013, for the Electronic Materials segment stood at \$80.4 million, and decreased by \$20.3 million, or 20%, over the backlog of last year. The backlog for the Eco-Friendly Materials stood at \$89.7 million, an increase of \$24.6 million, or 38%, over the backlog of a year ago. Overall the backlog, as at December 31, 2013, stood at \$170.1 million following the renewal pattern of most contracts which generally occurs in the fourth quarter.

Bookings for the Electronic Materials decreased by \$5.0 million, or 8%, from \$59.3 million in Q4 2012 to \$54.3 million in Q4 2013. Bookings for the Eco-Friendly Materials increased by \$29.1 million, or 40.0%, from \$72.7 million in Q4 2012 to \$101.8 million in Q4 2013.

Q4 2013 vs Q3 2013

Bookings for the Electronic Materials increased by \$22.8 million, or 72%, and by \$44.7 million, or 78%, for the Eco-Friendly Materials compared to the previous quarter.

Backlog as at December 31, 2013, increased by \$8.1 million for the Electronic Materials and increased by \$28.6 million for the Eco-Friendly Materials compared to the previous quarter.

¹ See Non-IFRS Measures

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Expenses

	Q4 2013	Q4 2012	% Change	2013	2012	% Change
	\$	\$		\$	\$	
Depreciation and amortization	2,419	5,628	-57%	10,686	21,159	-49%
SG&A	8,607	12,561	-31%	36,066	45,742	-21%
Litigation and restructuring costs	569	932	-39%	4,068	2,781	46%
Financial expenses	2,304	1,103	109%	5,934	11,587	-49%
Income taxes	1,012	(18,578)	n/a	1,913	(24,221)	n/a

Depreciation and Amortization

Due to impairment charges to property, plant and equipment ("PPE") and intangible assets incurred in 2012, depreciation and amortization expenses in Q4 2013 and 2013 decreased to \$2.4 million and \$10.7 million compared to \$5.6 million and \$21.2 million in Q4 2012 and 2012 respectively.

SG&A

SG&A expenses decreased by \$4 million, or 31%, from \$12.6 million in Q4 2012 to \$8.6 million in Q4 2013 and by \$9.7 million, or 21%, from \$45.7 million in 2012 to \$36.1 million in 2013. This performance primarily reflects successful execution of the Company's cost reduction program, mainly on salaries, professional fees and maintenance.

Litigation and Restructuring costs

The Company recorded litigation and restructuring costs of \$0.6 million and \$4.1 million for Q4 2013 and 2013 respectively mainly related to attorney's and other professional fees for the legal proceedings and employee severance costs. In 2012, the Company recorded a \$0.9 million and a \$2.8 million expense respectively related to an incident that occurred in one of its U.S. sites and to employee severance costs.

Financial Expenses

Financial expenses for Q4 2013 amounted to \$2.3 million compared to \$1.1 million for the same period last year. This increase is mainly due to foreign exchange and derivative expense of \$0.5 million recorded in Q4 2013 compared to a gain of \$0.4 million in Q4 2012. For 2013, financial expenses decreased by \$5.7 million and totalled \$5.9 million compared to \$11.6 million for 2012 due to a foreign exchange and derivative gain of \$2.6 million recorded in 2013 compared to a foreign exchange and derivative expense of \$2.8 million in 2012.

Income Taxes

Effective income tax rate was 4% in 2013 due to a non-taxable gain of \$45.2 million resulting from the reduction in the purchase price of MCP. For 2012, the effective income tax rate was 10% mainly due to the goodwill impairment charge which was not deductible for tax purposes.

Liquidity and Capital Resources

	Q4 2013	Q4 2012	2013	2012
	\$	\$	\$	\$
Funds from operations ¹	9,043	4,243	20,033	25,393
Net changes in non-cash working capital items	372	2,686	27,930	76,419
Operating activities	9,415	6,929	47,963	101,812
Investing activities	(3,755)	(4,346)	(11,748)	33,637
Financing activities	3,510	(100)	(22,410)	(154,964)
Effect of foreign exchange rate changes on cash and cash equivalents related to operations	(382)	(276)	(913)	(399)
Net increase (decrease) in cash and cash equivalents	8,788	2,207	12,892	(19,914)

For Q4 2013 and 2013, cash generated by operating activities was \$9.4 million and \$48.0 million respectively compared to \$6.9 million and \$101.8 million in Q4 2012 and 2012 respectively. This decrease in 2013 is mainly attributable to the inventory reduction of \$95.6 million in 2012.

¹ See Non-IFRS Measures

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Investing activities consumed \$3.8 million in Q4 2013 and \$11.7 million in 2013 compared to \$4.3 million and cash provided of \$33.6 million in Q4 2012 and 2012 respectively. In 2012, cash generated in investing activities was mainly due to a reduction in temporary investments resulting from repayment of loans in Hong Kong dollars.

Cash provided by financing activities amounted to \$3.5 million in Q4 2013 and cash consumed of \$22.4 million in 2013 compared to cash consumed of \$0.1 million and \$155.0 million in Q4 2012 and 2012 respectively, associated with reduction in the amounts drawn under the multi-currency revolving facility. In 2012, the Company had received \$38.6 million in proceeds from the issuance of new shares and decreased its debt by \$192.2 million.

Working Capital

	As at December 31, 2013	As at December 31, 2012
	\$	\$
Inventories	174,374	170,293
Other current assets	97,233	121,144
Current liabilities	(86,861)	(104,789)
Working capital ¹	184,746	186,648
Working capital current ratio ¹	3.13	2.78

The decrease in working capital, which has now reached its lowest level since the acquisition of MCP is mainly due to lower accounts receivable, income taxes receivable and higher accounts payables and is consistent with the Company's efforts aimed at reducing indebtedness and increasing financial flexibility.

Net Debt

	As at December 31, 2013	As at December 31, 2012
	\$	\$
Bank indebtedness and short-term debt	10,462	8,014
Long-term debt including current portion	72,785	140,425
Total Debt	83,247	148,439
Cash and cash equivalents and temporary investments (restricted)	(24,917)	(11,892)
Net Debt¹	58,330	136,547

Total debt decreased by \$65.2 million to \$83.2 million as at December 31, 2013, compared to \$148.4 million as at December 31, 2012. The variation was mainly due to net reimbursement of \$22.7 million and to the non-recurring gain of \$45.2 million in Q2 2013 resulting from the reduction of the purchase price reached with the former shareholders of MCP.

Net debt after taking into account cash and cash equivalents and restricted temporary investments decreased by \$78.2 million, from \$136.5 million as at December 31, 2012 to \$58.3 million as at December 31, 2013. The Company intends to continue reducing its debt through cost reductions and decreases in working capital as it has done over the last several months but an increase is possible if the price of commodities has an increasing trend in the following months.

Available Short-Term Capital Resources

	As at December 31, 2013	As at December 31, 2012
	\$	\$
Cash and cash equivalents	22,427	9,535
Available bank indebtedness and short-term debt	12,912	26,424
Available revolving credit facility	11,980	127,787
Available short-term capital resources	47,319	163,746

The Company believes that its cash flows from operating activities, combined with its available short-term capital resources of \$47.3 million as at December 31, 2013 will enable it to support its growth, its working capital needs and its planned capital expenditures.

Starting March 31, 2013, the senior secured multi-currency revolving credit facility was reduced to \$100 million. However, there was a maximum drawing limit of \$80 million until February 15, 2014. Such amendment established new

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financial covenants for the year 2013 and maintained the original maturity (August 2015). The interest rate has been changed and is linked to the Net Senior 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 approval by the lenders.

Funds from Operations

	Q4 2013	Q4 2012	2013	2012
	\$	\$	\$	\$
Funds from operations¹	9,043	4,243	20,033	25,393
Net acquisition of PPE and intangible assets	(4,013)	(4,196)	(11,615)	(15,888)
Working capital changes	372	2,686	27,930	76,419
Issuance of common shares	-	-	-	38,636
Settlement of the purchase price of MCP	-	-	45,188	-
Others	(212)	948	(3,319)	(532)
	(3,853)	(562)	58,184	98,635
Total movement in net debt¹	5,190	3,681	78,217	124,028
Net debt ¹ , beginning of period	(63,520)	(140,228)	(136,547)	(260,575)
Net debt¹, end of period	(58,330)	(136,547)	(58,330)	(136,547)

Funds from operations increased to \$9.0 million in Q4 2013 compared to \$4.2 million in Q4 2012 and decreased from \$25.4 million in 2012 to \$20.0 million in 2013.

The decrease in 2013 was mainly attributable to the decreasing underlying commodity pricing trend which negatively impacted selling prices and in turn led to lower profit margins.

	Q4 2013	Q4 2012	2013	2012
Net debt ¹ to annualized adjusted EBITDA ratio	1.84	5.34	1.92	3.60
Annualized funds from operations ¹ to net debt (%)	62.0	12.4	34.3	18.6

Net debt to annualized adjusted EBITDA ratio for Q4 2013 was 1.84 and 1.92 for 2013. Annualized funds from operations generated in the same periods represented 62.0% and 34.3% of our net debt.

Share Information

	As at February 25, 2014	As at December 31, 2013
Issued and outstanding shares	83,908,269	83,908,269
Stock options potentially issuable	1,637,951	1,637,951
Warrants potentially issuable	6,451,807	6,451,807

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, 2013 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.

¹ See Non-IFRS Measures

Management's Discussion and Analysis

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

	2013		2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		CA\$		CA\$
Outstanding, beginning of period	1,585,448	4.67	1,543,211	5.28
Granted	546,939	2.39	325,840	2.22
Cancelled	(141,386)	5.55	(240,072)	5.60
Exercised	-	-	(43,531)	3.36
Expired	(353,050)	3.00	-	-
Outstanding, end of period	1,637,951	4.19	1,585,448	4.67
Exercisable, end of period	1,001,826	4.94	1,024,656	4.94

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 Notes 17 and 26 of the audited consolidated financial statements for the year ended December 31, 2013.

The contractual maturities of the Company's financial liabilities as at December 31, 2013 are as follows:

	Carrying amount	1 year	2-3 years	4-5 years	Beyond 5 years	Total
	\$	\$	\$	\$	\$	\$
Bank indebtedness and short-term debt	10,462	11,137	-	-	-	11,137
Trade and accrued liabilities	65,016	65,016	-	-	-	65,016
Derivative financial instruments	4,237	3,284	953	-	-	4,237
Long-term debt	72,785	6,017	69,553	173	19	75,762
Total	152,500	85,454	70,506	173	19	156,152

Contingencies

In the normal course of operations, the Company is exposed to events that could give rise to contingent liabilities or assets. As at February 25, 2014, the Company was not aware of any significant events that would have a material effect on its consolidated financial statements.

The Company settled its dispute with the former shareholders of MCP, thereby prohibiting further related action by either party involved in the settlement. As of the date hereof, the Company does not believe that it is probable that an outflow of resources, which could be material to the consolidated financial statements, will be required by the Company following potential third party claims pertaining to actions or events related to the alleged breaches of representations and warranties by the Vendors.

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:

Management's Discussion and Analysis

- 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 fiscal year ended December 31, 2013 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 2013 in accordance with IFRS. The Company's significant accounting policies are described in Note 2 of the December 31, 2013 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, 2012.

Changes in Accounting Policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the application transitional provisions.

IAS 1, "Presentations of Financial Statement". These amendments required the Company to group other comprehensive income item by those that will be reclassified subsequently to the consolidated statement of earnings and those that will not. The Company has reclassified comprehensive income items of the comparative period. These changes did not result in any net adjustments to other comprehensive income or comprehensive income.

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). Furthermore, the amendments to IAS 19 enhance the disclosure requirements for defined benefit plans and the risks that the Company is exposed through participation in those plans. The impact of the adoption of IAS 19 is presented in Note 4 of the consolidated financial statements for the year ended December 31, 2013.

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 impact of the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries or investees.

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 unconsolidated structured entities.

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The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The Corporation has incorporated the new disclosure requirements within these financial statements. IFRS 13, "Fair Value Measurement", provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

In May 2013, the IASB amended IAS 36, Impairment of assets regarding disclosures for non-financial assets. This amendment removed certain disclosures related to the recoverable amount of CGUs which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory until January 1st, 2014, however the Company has decided to early adopt the amendment as of January 1, 2013.

IFRS 7, Financial instruments — disclosure ("IFRS 7") — The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are either offset in the consolidated balance sheet or subject to master netting arrangements or other similar arrangements. The amendments are to be applied retrospectively. The impact of the adoption of IFRS 7 did not result in any change in the disclosure about offsetting of financial assets and financial liabilities.

Future Changes in Accounting Standards

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing the 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, as issued, reflects the current status of the IASB's work plan on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities, as defined in IAS 39. The IASB is also addressing hedge accounting and impairment of financial assets. In December 2013 the IASB removed the mandatory effective date of IFRS 9 until all phases of the project have been completed. The mandatory effective date has yet to be determined however it has been deferred beyond annual periods beginning on or after January 1, 2015.

The Company has not yet quantified the effect of the published phases of the Standard nor does it intend at this time to early adopt the Standard until the mandatory effective date.

IFRIC 21, Levies — IFRIC 21 provides guidance on accounting for levies in accordance with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation and confirms that a liability for a levy is recognized only when the triggering event specified in the legislation occurs. The interpretation is effective for annual periods beginning on or after January 1, 2014 however the Corporation has not yet assessed the impact of this interpretation.

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 Cash Generating Units ("CGU"), 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 the appropriate adjustment to asset-specific risk factors.

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 on an individual items basis and considered events that have occurred between the balance sheet date and the date of the completion of the financial statements. Net realizable value held to satisfy a specific sale 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 judgment 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.

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 2013 consolidated financial statements of the Company.

Financial Instruments and Risk Management

Fair Value of financial instruments

A detailed description of the methods and assumptions used to measure the fair value of the Company financial instruments and their fair value are discussed in Note 17 – Categories of Financial Assets and Financial Liabilities in the 2013 consolidated financial statements of the Company.

Management's Discussion and Analysis

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

Assets (Liabilities)	December 31, 2013	December 31, 2012
	\$	\$
Interest rate swap	(2,588)	(3,870)
Foreign exchange forward contracts	(1,468)	(1,080)
Derivative forward contracts	955	-
Options	-	(239)
Warrants	(181)	(1,165)
Total	(3,282)	(6,354)

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, 2013, the Company has an outstanding interest rate swap contract to hedge part of its interest rate risk on the revolving credit facility. The nominal value is \$100,000 commencing in January 2013 and ending in August 2015. This interest rate swap fixed the LIBOR interest rate at 1.82%. The Company received \$1,700 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 (\$2,588) as at December 31, 2013 and is 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 its 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 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.

Foreign exchange forward contracts are described in Note 17 in the 2013 consolidated financial statements of the Company.

The Company had the following currency exposures on December 31, 2013:

	CA\$	EUR	GBP	RMB	HK\$
Cash and cash equivalents	351	4,847	1,398	7,188	10
Temporary investments (restricted)	-	2,490	-	-	-
Accounts receivable	564	15,131	2,506	3,541	276
Bank indebtedness and short-term debt	-	-	-	(10,462)	-
Trade and accrued liabilities	(1,724)	(15,827)	(1,642)	(6,073)	(172)
Long-term debt	(897)	(3,448)	-	-	-
Net financial (liabilities) assets	(1,706)	3,193	2,262	(5,806)	114

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, 2013 for the Company's financial instruments denominated in non-functional currencies:

	CA\$	EUR	GBP	RMB	HK\$
1% Strengthening					
Earnings (loss) before tax	(17)	32	23	(58)	1
1% Weakening					
Earnings (loss) before tax	17	(32)	(23)	58	(1)

Options

The market value of those financial instruments depends on several factors, such as foreign exchange rate market volatility, the remaining duration of the instruments and other market conditions. For these reasons, it is very difficult for

Management's Discussion and Analysis

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 (\$0.2) million as at December 31, 2013 and (\$1.2) million as at December 31, 2012. 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, 2013 and 2012, the Company had an allowance for doubtful accounts of \$0.2 million. 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. Under the terms of its credit facility, the Company is required to satisfy certain restrictive covenants. In order to comply with these covenants, the Company has prepared, and will need to execute on, its budgeted EBITDA and cash flow estimates. Management believes that the assumptions used by the Company in preparing its budgets are reasonable and that it is not likely that the financial covenants on the credit facility during a certain period will be violated in the next 12 months. However, risk remains. Successful achievement of these budgeted results is dependent on stability in the price of metals and other raw materials, the reduction of debt due to the optimization of the Company's working capital and the continued viability and support of the Company's banks.

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 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

Management's Discussion and Analysis

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.

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.

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 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 supply 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, walkouts 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 a material 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.

Management's Discussion and Analysis

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, litigation and restructuring costs, acquisition-related costs and the settlement of purchase price of MCP. 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.

EBITDA margin is defined as EBITDA divided by revenues.

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 EBITDA margin is defined as Adjusted EBITDA divided by revenues.

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, litigation and restructuring costs, settlement of purchase price 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, litigation and restructuring costs, the settlement of purchase price 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, litigation and restructuring costs, the settlement of purchase price 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 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.

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 of liquid assets that is calculated by taking current assets and subtracting current liabilities. Given that the company is currently indebted, we use it as an indicator of our financial efficiency and aim to maintain it at the lowest possible level.

Working capital ratio is calculated by dividing current assets by 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.