5N Plus Inc.

Management Report Quarter Ended March 31, 2021

5N PLUS

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 unaudited condensed interim consolidated financial statements of Q1 2021 and the audited consolidated financial statements and the accompanying notes for the year ended December 31, 2020. This MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators.

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.

Information contained herein includes any significant developments to May 10, 2021, 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.

“Q1 2021” and “Q1 2020” refer to the three-month periods ended March 31, 2021 and March 31, 2020 respectively.

Non-IFRS Measures

This MD&A also includes certain figures that are not performance measures consistent with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. 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. A description of the risks affecting the Company’s business and activities appears under the heading “Risk and Uncertainties” of the 5N Plus’s 2020 MD&A dated February 23, 2021 and note 10 of the unaudited condensed interim consolidated financial statements for the three-month periods ended March 31, 2021 and March 31, 2020 available on www.sedar.com.

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.

Management’s Discussion and Analysis

Overview

5N Plus is a leading global producer of specialty semiconductors and performance materials. The Company’s ultra-pure materials often form the core element of its customer products. These customers rely on 5N Plus’s products to enable performance and sustainability in their own products. 5N Plus deploys a range of proprietary and proven technologies to develop and manufacture its products. The Company’s products enable various applications in a number of key industries including renewable energy, security, space, pharmaceutical, medical imaging, and industrial and additive manufacturing. Headquartered in Montreal, Québec, 5N Plus operates R&D, manufacturing and commercial centers in strategically located facilities around the world including Europe, North America and Asia. The Company’s mission is to be critical to its customers, valued by its employees and trusted by its shareholders. The Company’s core values focus on integrity, commitment and customer development along with emphasis on sustainable development, continuous improvement, health and safety.

Reporting Segments

The Company has two reportable segments: Electronic Materials and Eco-Friendly Materials. Corresponding operations and activities are managed accordingly by the Company’s key decision makers. Segmented operating, financial information and 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[1] which are reconciled to consolidated numbers by accounting for corporate income and expenses.

The Electronic Materials segment operates in North America, Europe and Asia. The segment manufactures and sells products which are used in a number of applications such as security, aerospace, sensing, imaging, renewable energy and various technical industries. Typical end markets include photovoltaics (terrestrial and spatial solar energy), advance electronics, optoelectronics, electronic packaging, medical imaging and thermoelectric. These are sold either in elemental or alloyed form as well as in the form of chemicals, compounds and wafers. Revenues and earnings associated with recycling services and activities provided to Electronic Materials customers are also captured in this segment.

The Eco-Friendly Materials segment is labelled as such because it is mainly associated with bismuth, one of the few heavy metals that has no detrimental effect on either human health or the environment. The segment operates in North America, Europe and Asia, and manufactures and sells products which are used in a number of applications such as pharmaceutical, healthcare, animal feed additive, catalytic and extractive, as well as various industrial materials. Main products are sold either in elemental or alloyed form, but primarily in the form of specialized chemicals. Revenues and earnings associated with recycling services and activities provided to Eco-Friendly Materials customers are also captured in this segment.

Corporate expenses associated with the head office and unallocated selling, general and administrative expenses (SG&A) together with financial expenses (revenues) have been regrouped under the heading “Corporate”.

Vision and Mission

The Company’s vision is to enable critical industries through essential products based on advanced material technology. and 5N Plus’s aim is to propel the growth of these markets by developing and manufacturing advanced materials to enable product performance.

The Company’s mission is to be:

- Critical to its customers
- Valued by its employees
- Trusted by its shareholders

[1] See Non-IFRS Measures

Highlights of Q1 2021

All amounts are expressed in U.S. dollars.

5N Plus entered 2021 announcing two strategic growth initiatives: a transformational acquisition in the field of specialty semiconductors and a strategic stake in a clinical stage biotechnology company through equity investment along with securing manufacturing rights to a new class of Active Pharmaceutical Ingredients ("API"). These actions, along with the Company's expansion into engineered powders for additive manufacturing (i.e., 3D Printing) in the second half of 2020, reinforces the Company's solid foundation as it transforms its business away from products with notable exposure to commodities and toward advanced material technology with higher barrier for entry and larger total addressable market.

During the quarter, the Eco-Friendly Materials segment delivered strong results with Adjusted EBITDA margin[1] reaching record levels. Over the recent years, 5N Plus has been developing Eco-Friendly Materials along higher margin businesses, reducing the segment's exposure commodity prices and improving its operational efficiency. The first quarter results in 2021 reflect the culmination of these actions working in concert with stellar performance from operating activities resulting in significant improvement in the segments margins.

In late 2020, 5N Plus announced it had secured a series of multi-year contracts in renewable energy. These contracts came with two features: firstly, the contracts were negotiated with asymmetrical revenue contribution favoring the latter part of the contracts' tenure. Secondly, certain contracts came with fixed pricing and 5N Plus has the option to exercise or forgo some or all of the volumes. The option protection enables 5N Plus to be more selective in accepting business and managing risks.

Also, in recent communications, the Company highlighted strong performance from its medical imaging business, driven by the Company's new generation of medical imaging semiconductor detector chips used in the fleet build-up of medical imaging devices undergoing regulatory and customer qualifications. During this phase of market development, we anticipate lower demand from this activity throughout 2021.

Lower Adjusted EBITDA[1] for Electronic Materials during the quarter, as compared to the same period last years can be attributed to renewable energy and medical imaging. Promisingly, the segment's backlog[1] during the quarter surged well above the same period last year and well above last quarter's level, driving the overall backlog of 5N Plus higher.

First Quarter Financial Highlights

- Revenue in the first quarter of 2021 reached $46.9 million compared to $50.0 million for the same period last year, impacted by a less favorable mix of products within Electronic Materials along with global challenges associated with sea freight logistics affecting the supply chain in both segments.
- Adjusted EBITDA for the first quarter of 2021 reached $6.3 million compared to $6.9 million in the same period last year, impacted by revenue and product sales mix under Electronic Materials. EBITDA[1] for the first quarter of 2021 reached $5.7 million compared to $6.2 million in the same period last year.
- Significant increase in Electronic Material's backlog during the quarter positively impacted the overall backlog. On March 31, 2021, the backlog represented 195 days of annualized revenue, higher than the previous quarter (189 days) and Q1 2020 (188 days). Bookings[1] in Q1 2021 reached 100 days compared to 62 days in Q1 2020.
- Net earnings for the first quarter of 2021 were $0.8 million or $0.01 per share compared to $0.6 million or $0.01 in the same period last year.
- Annualized Return on Capital Employed ("ROCE")[1] reached 13.1% in 2021 compared to 14.4% at the end of 2020.
- Net debt[1] reduced to $9.6 million due to repayment of long-term debt of $5.1 million using cash generated by operating activities.
- On March 5, 2020, 5N Plus announced that the Toronto Stock Exchange ("TSX") approved its normal course issuer bid ("NCIB"). Under the terms of the NCIB, 5N Plus had the right to purchase for cancellation a maximum of 2,000,000 common shares, from March 9, 2020 to March 8, 2021. By the end of March 2021, all approved common shares had been purchased and cancelled. No NCIB is currently active.

[1] See Non-IFRS Measures

Summary of Key Q1 2021 Developments

- On January 12, 2021, 5N Plus announced that it entered into a strategic agreement with Montana-based Microbion Corporation aimed at furthering the development of Microbion's new class of antibiotic and antibiofilm drugs. Under the terms of the agreement, 5N Plus has taken an equity stake in Microbion and will assume responsibility for the manufacturing of bismuth-based API required in Microbion's family of drug products currently under development.
- On March 24, 2021, 5N Plus announced the renewal of its $79.0 million senior secured multi-currency, revolving and syndicated credit facility. The agreement includes a contingent option to expand the facility to $124.0 million. The renewed credit facility has a two-year term, bearing interest and a margin based on the Company's senior consolidated debt to EBITDA[1] ratio. In addition to its contingent option, 5N Plus can exercise a $30.0 million accordion feature, increasing the facility's total size to $154.0 million, subject to lender approval.
- On March 30, 2021, 5N Plus announced that it entered into an agreement with AZUR SPACE Solar Power GmbH ("AZUR") pursuant to which 5N Plus would acquire all of the issued and outstanding shares of AZUR (the "Transaction"). The Transaction is subject to the customary closing conditions, including regulatory approvals. 5N Plus plans to fully integrate AZUR's workforce and appoint Mr. Jürgen Heizmann, Managing Director of AZUR, as a member of 5N Plus's Executive Committee. The transaction will allow 5N Plus to meaningfully expand into new, larger and growing markets and develop a highly competitive value chain spanning from procurement of strategic materials to finished epitaxy engineered substrates.

Outlook

The acquisition of AZUR is subject to the customary closing conditions, including regulatory approvals which are currently underway. This introduces a timing variability with respect to the closing and financial consolidation of this acquisition, thereby making it difficult to provide a combined Adjusted EBITDA[1] guidance for 2021.

In the spirit of consistency and transparency, management will nevertheless provide an estimate based on its best visibility at the time of this communication. For 2021, the Adjusted EBITDA for 5N Plus, post consolidation, is estimated to be in the range of $25.0 million to $30.0 million. The variation in this guidance is derived from a number of factors, though the key factor is tellurium notation. Given that the price of tellurium has continued to increase without sustained fundamentals and with speculation and unusual practices, this earning guidance accounts for risk mitigation measures protecting 5N Plus. With the current trajectory, 5N Plus may forego its options to exercise additional business at fixed price. In addition, should the Company decide to move ahead with these options, this earning guidance assumes certain protection against products with lower margins. When accounting for the lower end of the guidance, gross margin[1] is expected to roughly remain at around 25%.

Looking to 2021, management's top priority will be to successfully complete AZUR's acquisition and its integration with 5N Plus. This transaction will be transformational for 5N Plus as it will expand the Company's access to engineered semiconductors augmented by epitaxy technology, enabling further customization of its specialty semiconductor substrates and address larger markets including high-power electronics, electric mobility, wireless charging, data centres, advanced communication (5G, satellite, base station), renewable energy, security, space and more.

In recent years, management has focused on margin expansion and earnings optimization within the Company's core businesses while launching growth initiatives in the field of engineered semiconductor materials along with health and pharma. The core businesses have thus become a reliable source of cash generation which have not only supported significant net debt reduction but have also financed various investments including new growth initiatives that are progressing in the early stages of development. Given this, while the overall financial performance of 5N Plus will ebb and flow over the short-term, it is expected that the financial performance of the Company will continue to grow both in Adjusted EBITDA and revenue in the medium and long-term.

[1] See Non-IFRS Measures

Summary of Results

(in thousands of U.S. dollars, except per share amounts)	Q1 2021	Q1 2020
	$	$
Revenue	46,876	49,954
Adjusted operating expenses[1] *	(40,596)	(43,097)
Adjusted EBITDA[1]	6,280	6,857
Impairment of inventories	-	-
Share-based compensation expense	(1,396)	(170)
Foreign exchange and derivative gain (loss)	859	(449)
EBITDA[1]	5,743	6,238
Interest on long-term debt, imputed interest and other interest expense	740	899
Depreciation and amortization	2,630	3,099
Earnings before income taxes	2,373	2,240
Income tax expense		
Current	756	1,337
Deferred	854	311
	1,610	1,648
Net earnings	763	592
Basic earnings per share	$0.01	$0.01
Diluted earnings per share	$0.01	$0.01

**Excluding impairment of inventories, share-based compensation expense, and depreciation and amortization.*

Revenue by Segment and Gross Margin

(in thousands of U.S. dollars)	Q1 2021	Q1 2020	Change
	$	$	
Electronic Materials	18,814	19,784	(5%)
Eco-Friendly Materials	28,062	30,170	(7%)
Total revenue	46,876	49,954	(6%)
Cost of sales	(37,417)	(40,460)	(8%)
Depreciation included in cost of sales	2,235	2,685	(17%)
Gross margin[1]	11,694	12,179	(4%)
Gross margin percentage[1]	24.9%	24.4%	

In Q1 2021, revenue decreased by 6% compared to the same quarter of last year, impacted by a less favorable mix of products within Electronic Materials along with global challenges associated with sea freight logistics affecting the supply chain in both segments, while gross margin[1] reached 24.9% compared to 24.4% in Q1 2020.

Operating earnings, EBITDA and Adjusted EBITDA

(in thousands of U.S. dollars)	Q1 2021	Q1 2020	Change
	$	$	
Electronic Materials	4,252	5,782	(26%)
Eco-Friendly Materials	4,157	3,122	33%
Corporate	(2,129)	(2,047)	4%
Adjusted EBITDA[1]	6,280	6,857	(8%)
EBITDA[1]	5,743	6,238	(8%)
Operating earnings	2,254	3,588	(37%)

In Q1 2021, Adjusted EBITDA[1] was $6.3 million compared to $6.9 million in Q1 2020, impacted by lower revenue and unfavorable product sales mix under Electronic Materials.

[1] See Non-IFRS Measures

Management's Discussion and Analysis

In Q1 2021, EBITDA[1] was $5.7 million compared to $6.2 million in Q1 2020. The decrease is mainly explained by a lower Adjusted EBITDA[1], and an increase of share-based compensation expense mitigated by a foreign exchange and derivative gain against which the Company presented a loss in the same quarter of last year.

In Q1 2021, operating earnings reached $2.3 million compared to $3.6 million in Q1 2020.

Electronic Materials Segment
Adjusted EBITDA in Q1 2021 decreased by $1.5 million to $4.3 million representing an Adjusted EBITDA margin[1] of 23% compared to 29% in Q1 2020.

Eco-Friendly Materials Segment
Adjusted EBITDA in Q1 2021 increased by $1.0 million to $4.2 million representing an Adjusted EBITDA margin of 15% compared to 10% in Q1 2020.

Net Earnings and Adjusted Net Earnings

(in thousands of U.S. dollars, except per share amounts)	**Q1 2021**	Q1 2020
	$	$
Net earnings	**763**	592
Basic earnings per share	**$0.01**	$0.01
Reconciling items:		
Share-based compensation expense	**1,396**	170
Income tax recovery on taxable items above	**(370)**	(45)
Adjusted net earnings[1]	**1,789**	717
Basic adjusted net earnings per share[1]	**$0.02**	$0.01

In Q1 2021, net earnings were $0.8 million or $0.01 per share compared to $0.6 million or $0.01 per share in Q1 2020. Adjusted net earnings[1] increased by $1.1 million and were $1.8 million or $0.02 per share in Q1 2021 compared to $0.7 million or $0.01 per share in Q1 2020.

Excluding the income tax recovery, the only item reconciling the Adjusted net earnings in Q1 2021 is the share-based compensation expense.

[1] See Non-IFRS Measures

Backlog and Bookings

(in thousands of U.S. dollars)	BACKLOG[1]			BOOKINGS[1]		
	Q1 2021	Q4 2020	Q1 2020	**Q1 2021**	Q4 2020	Q1 2020
	$	$	$	**$**	$	$
Electronic Materials	**53,894**	53,049	51,602	**19,659**	38,591	2,498
Eco-Friendly Materials	**46,164**	42,544	51,135	**31,682**	28,629	31,296
Total	**100,058**	95,593	102,737	**51,341**	67,220	33,794

(number of days based on annualized revenues) *	BACKLOG[1]			BOOKINGS[1]		
	Q1 2021	Q4 2020	Q1 2020	**Q1 2021**	Q4 2020	Q1 2020
Electronic Materials	**261**	224	238	**95**	163	12
Eco-Friendly Materials	**150**	157	155	**103**	106	95
Weighted average	**195**	189	188	**100**	133	62

** Backlog and bookings are also presented in number of days to normalize the impact of commodity prices.*

Q1 2021 vs Q4 2020

Backlog[1] on March 31, 2021 represented 195 days of annualized revenue, an increase of 6 days or 3% over the backlog on December 31, 2020.

Backlog on March 31, 2021 for the Electronic Materials segment represented 261 days of annualized segment revenue, an increase of 37 days or 17% over the backlog on December 31, 2020. The backlog for the Eco-Friendly Materials segment represented 150 days of annualized segment revenue, a decrease of 7 days or 4% over the backlog on December 31, 2020.

Bookings[1] for the Electronic Materials segment decreased by 68 days, from 163 days in Q4 2020 to 95 days in Q1 2021, due to the renewal timing of a long-term contract within the segment that occurred in Q4 2020. Bookings for the Eco-Friendly Materials segment decreased by 3 days, from 106 days in Q4 2020 to 103 days in Q1 2021.

Q1 2021 vs Q1 2020

Backlog on March 31, 2021 for the Electronic Materials segment increased by 23 days, with the increase mainly driven by the timing associated with the negotiation of long-term contracts within the segment. The Eco-Friendly Materials segment decreased by 5 days compared to March 31, 2020, reaching 150 days compared to 155 days in Q1 2020.

Bookings for the Electronic Materials segment increased by 83 days, mainly driven by the bankruptcy filing of one of the end-customers resulting in retroactive adjustment during Q1 2020, and by 8 days for the Eco-Friendly Materials segment compared to the previous year quarter.

Expenses

(in thousands of U.S. dollars)	**Q1 2021**	Q1 2020
	$	$
Depreciation and amortization	**2,630**	3,099
SG&A	**4,976**	4,891
Share-based compensation expense	**1,396**	170
Financial (income) expense	**(119)**	1,348
Income taxes expense	**1,610**	1,648
Total expenses	**10,493**	11,156

[1] See Non-IFRS Measures

Depreciation and Amortization

Depreciation and amortization expenses in Q1 2021 amounted to $2.6 million compared to $3.1 million for the same period of 2020. This is a similar level to Q4 2020.

SG&A

SG&A expenses in Q1 2021 were $5.0 million compared to $4.9 million for the same period of 2020.

Share-Based Compensation Expense

Share-based compensation expense in Q1 2021 amounted to $1.4 million compared to $0.2 million for the same period of 2020, reflecting the scheduled vesting of long-term incentive plans and the rise in the Company's share price initiated at the end of 2020.

Financial (Income) Expense

Financial income in Q1 2021 amounted to $0.1 million compared to financial expense of $1.3 million in Q1 2020. The positive impact is mainly due to a gain in foreign exchange and derivatives compared to a loss for the same period last year, while the interest on long-term debt was at similar levels for both periods.

Income Taxes

The Company reported earnings before income taxes of $2.4 million in Q1 2021. Income tax expense in Q1 2021 was $1.6 million – the same level of Q1 2020. Both periods were impacted by deferred tax assets applicable in certain jurisdictions.

Liquidity and Capital Resources

(in thousands of U.S. dollars)	**Q1 2021**	Q1 2020
	$	$
Funds from operations[1]	**4,899**	4,774
Net changes in non-cash working capital items	**876**	(4,116)
Operating activities	**5,775**	658
Investing activities	**(3,736)**	(2,265)
Financing activities	**(6,432)**	3,789
Effect of foreign exchange rate changes on cash and cash equivalents	**(171)**	(241)
Net (decrease) increase in cash and cash equivalents	**(4,564)**	1,941

Cash generated by operating activities amounted to $5.8 million in Q1 2021 compared to $0.7 million in Q1 2020. The increase is mainly due to the positive change in non-cash working capital in Q1 2021, while in Q1 2020 the change in non-cash working capital dampened the funds from operations[1] contribution.

In Q1 2021, cash used in investing activities totaled $3.7 million compared to $2.3 million in Q1 2020, mainly attributed to the acquisition of a minority equity stake in Microbion for an amount of $2.0 million as well as the timing of additions to property, plant and equipment ("PPE").

In Q1 2021, cash used in financing activities amounted to $6.4 million compared to cash generated from financing activities of $3.8 million in Q1 2020. The decrease of $10.2 million is explained by the reimbursement during the quarter of $5.0 million of the credit facility and a $5.0 million drawdown from the credit facility made by the Company in Q1 2020.

[1] See Non-IFRS Measures

Working Capital

(in thousands of U.S. dollars)	As at March 31, 2021	As at December 31, 2020
	$	$
Inventories	67,930	67,139
Other current assets	82,198	83,756
Current liabilities	(41,949)	(36,550)
Working capital[1]	108,179	114,345
Working capital current ratio[1]	3.58	4.13

The decrease in working capital[1] compared to December 31, 2020 was mainly attributable to higher current liabilities reflecting the current operations level, and recent increase in metal notations observed during the quarter.

Net Debt

(in thousands of U.S. dollars)	As at March 31, 2021	As at December 31, 2020
	$	$
Bank indebtedness	-	-
Long-term debt including current portion	45,000	50,109
Total Debt[1]	45,000	50,109
Cash and cash equivalents	(35,386)	(39,950)
Net Debt[1]	9,614	10,159

Total debt[1] decreased by $5.1 million and stood at $45.0 million compared to $50.1 million on December 31, 2020, following the reimbursement of $5.0 million of the credit facility during Q1 2021.

Net debt[1], after considering cash and cash equivalents, decreased by $0.6 million, from $10.2 million on December 31, 2020 to $9.6 million on March 31, 2021.

In March 2021, the Company signed a senior secured multi-currency revolving credit facility of $79.0 million maturing in April 2023 to replace its existing $79.0 million senior secured revolving facility maturing in April 2022. The agreement includes a contingent option to expand the facility to $124.0 million. At any time, the Company has the option to request that the credit facility be expanded further through the exercise of an additional $30.0 million accordion feature, subject to review and approval by the lenders. This revolving credit facility can be drawn in U.S. dollars, Canadian dollars or Hong Kong dollars. Drawings bear interest at either the Canadian prime rate, U.S. base rate, Hong Kong base rate or LIBOR, plus a margin based on the Company's senior net debt to consolidated EBITDA[1] ratio. Under the terms of its credit facility, the Company is required to satisfy certain restrictive covenants as to financial ratios. As at March 31, 2021 and December 31, 2020, the Company had met all covenants.

Share Information

	As at May 10, 2021	As at March 31, 2021
Issued and outstanding shares	81,419,058	81,401,558
Stock options potentially issuable	655,100	672,600

On March 5, 2020, the TSX approved the Company's NCIB plan under which the Company had the right to purchase for cancellation a maximum of 2,000,000 common shares from March 9, 2020 until March 8, 2021. For the three-month period ended March 31, 2021, the Company repurchased and cancelled 249,572 common shares at an average price of $3.24 (CA$4.10) for a total amount of $0.8 million applied against the equity. On March 31, 2021, all approved common shares had been repurchased and cancelled. No NCIB is currently active.

[1] See Non-IFRS Measures

Off-Balance Sheet Arrangements

The Company is exposed to currency risk on sales in Euro and other currencies as well as interest rate fluctuations on its credit facility, and therefore may periodically enter into foreign currency forward contracts and interest rate or foreign currency swap contracts to protect itself against interest rate and currency fluctuations. The reader will find more details related to these contracts in Notes 16 and 24 of the audited consolidated financial statements for the year ended December 31, 2020.

Commitments

As at March 31, 2021, in the normal course of business, the Company contracted letters of credit for an amount of $0.6 million ($0.7 million as at December 31, 2020).

Contingencies

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

Proposed Acquisition of AZUR SPACE

On March 30, 2021, the Company entered into an agreement with AZUR pursuant to which the Company would acquire all of the issued and outstanding shares of AZUR for an expected total purchase price between 73 and 79 million euros subject to prevailing closing adjustments. This includes 6.5 million shares of 5N Plus, subject to the TSX approval, to be issued from treasury at closing and cash payment. The sum of these two items will be approximately 53 million euros, subject to the volume-weighted average closing share price of 5N Plus prior to closing. Furthermore, 5N Plus expects to finance working capital in the range of 20 to 26 million euros with a provision not to exceed 27 million euros. The cash portion of the Transaction is expected to be funded through a senior debt facility. The Transaction is currently subject to the customary closing conditions, including regulatory approvals.

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 other things, attest to the design of the disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting.

Disclosure Controls and Procedures

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

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

An evaluation of the effectiveness of the Company's disclosure controls and procedures was carried out under the supervision of the Chief Executive Officer and Chief Financial Officer. 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 (ICFR) 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.

Based on their evaluation carried out to assess the effectiveness of the Company's ICFR, the Chief Executive Officer and the Chief Financial Officer have concluded that the ICFR were designed and operated effectively using the Internal Control – Integrated Framework (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO 2013 Framework").

In light of the COVID-19 pandemic and in compliance with the recommendations from public health authorities, the Company implemented remote work arrangements. These new working arrangements may have an impact on the performance of some internal controls. The Company will continually monitor and assess the effects of the COVID-19 pandemic on its ICFR. Management has reiterated the importance of internal controls and maintained frequent communication across the organization at all levels.

Changes in Internal Control over Financial Reporting

No changes were made to the ICFR during the three-month period ended March 31, 2021 that have materially affected, or are reasonably likely to materially affect, the ICFR.

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 is discussed in Note 16 – Fair Value of Financial Instruments in the 2020 audited consolidated financial statements of the Company.

Financial Risk Management

For a detailed description of the nature and extent of risks arising from financial instruments, and their related risk management, refer to Note 24 of the 2020 audited consolidated financial statements of the Company. The Company is not aware of any significant changes to its risk factors from those disclosed at that time.

Risk and Uncertainties

For a detailed description of risk factors associated with 5N Plus and its business, refer to "Risk and Uncertainties" of 5N Plus's 2020 MD&A dated February 23, 2021. Factors of uncertainty and risk include the risks associated with COVID-19, the Company's growth strategy, credit, liquidity, interest rate, litigation, inventory pricing, commodity pricing, currency fluctuation, fair value, source of supply, environmental regulations, competition, dependence on key personnel, business interruptions, changes to backlog, protection of intellectual property, international operations including China, international trade regulations, collective agreements and being a public issuer, systems, network infrastructure and data failure, interruption and breach, global economic conditions as well as the market price of common shares.

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 orders the Company has received but have not yet executed and that are expected to translate into sales within the next twelve months expressed in number of days. Bookings represent orders received during the period considered, expressed in days, and are calculated by adding revenues to the increase or decrease in backlog for the period considered divided by annualized year revenues. 5N Plus uses backlog to provide an indication of expected future revenues in days, and bookings to determine its ability to sustain and increase its revenues.

EBITDA means net earnings before interest expenses, income taxes, depreciation and amortization. 5N Plus uses EBITDA because it believes it is a meaningful measure of the operating performance of its 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, share-based compensation expense, impairment of non-current assets, litigation and restructuring costs (income), gain on disposal of property, plant and equipment, foreign exchange and derivatives loss (gain). 5N Plus uses adjusted EBITDA because it believes it is a meaningful measure of the operating performance of its ongoing business without the effects of certain expenses. The definition of this non-IFRS measure used by the Company may differ from that used by other companies.

Adjusted EBITDA margin is defined as Adjusted EBITDA divided by revenues.

Adjusted operating expenses means operating charges before impairment of inventories, shared-based compensation expense, impairment of non-current assets, litigation and restructuring costs (income), gain on disposal on property, plant and equipment and depreciation and amortization. 5N Plus uses adjusted operating expenses to calculate the Adjusted EBITDA. 5N Plus believes it is a meaningful measure of the operating performance of its ongoing business. The definition of this non-IFRS measure used by the Company may differ from that used by other companies.

Adjusted net earnings means the net earnings before the effect of charge of impairment related to inventory, PPE and intangible assets, share-based compensation expense, litigation and restructuring costs (income), accelerated depreciation, gain on disposal of property, plant and equipment net of the related income tax. 5N Plus uses adjusted net earnings because it believes it is a meaningful measure of the operating performance of its ongoing business without the effects of unusual inventory write-downs and property plant and equipment, intangible asset impairment charges, share-based compensation expense, litigation and restructuring costs (income), accelerated depreciation and gain on disposal of property, plant and equipment. The definition of this non-IFRS measure used by the Company may differ from that used by other companies.

Basic adjusted net earnings per share means adjusted net earnings divided by the weighted average number of outstanding shares. 5N Plus uses basic adjusted net earnings per share because it believes it is a meaningful measure of the operating performance of its ongoing business without the effects of unusual impairment charges on inventories, PPE and intangible asset, share-based compensation expense, litigation and restructuring costs (income), accelerated depreciation and gain on disposal of property, plant and equipment. The definition of this non-IFRS measure used by the Company may differ from that used by other companies.

Funds from (used in) 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. 5N Plus considers funds from (used in) operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary for future growth and debt repayment.

Gross margin is a measure used to monitor the sales contribution after paying cost of sales, excluding depreciation and impairment inventory charge. 5N Plus also expressed this measure in percentage of revenues by dividing the gross margin value by the total revenue.

Net debt is calculated as total debt less cash and cash equivalents. Any introduced IFRS 16 reporting measures in reference to lease liabilities are excluded from the calculation. 5N Plus uses this measure as an indicator of its overall financial position.

Return on Capital Employed ("ROCE") is a non-IFRS financial measure, calculated by dividing the annualized Adjusted EBIT by capital employed at the end of the period. Adjusted EBIT is calculated as the Adjusted EBITDA less depreciation of PPE and amortization of intangible assets (adjusted for accelerated depreciation charge, if any). Capital employed is the sum of the accounts receivable, the inventory, the PPE, the goodwill and intangibles less trade and accrued liabilities (adjusted for exceptional items). 5N Plus uses ROCE to measure the return on capital employed, whether the financing is through equity or debt. In the view of the Company, this measure provides useful information to determine if capital invested in the Company yields competitive returns. The usefulness of ROCE is limited by the fact that it is a ratio and not providing information as to the absolute amount of its net income, debt or equity. It also excludes certain items from the calculation and other companies may use a similar measure but calculate it differently.

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, it uses it as an indicator of its 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

5N Plus's 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.

Selected Quarterly Financial Information

(in thousands of U.S. dollars, except per share amounts)	**March 31, 2021**	Dec. 31, 2020	Sept. 30, 2020	June 30, 2020	March 31, 2020	Dec. 31, 2019	Sept. 30, 2019	June 30, 2019
	$	$	$	$	$	$	$	$
Revenue	**46,876**	46,230	39,872	41,136	49,954	44,714	49,554	50,290
EBITDA[1]	**5,743**	2,230	7,450	6,506	6,238	3,682	5,860	5,321
Adjusted EBITDA[1]	**6,280**	6,543	7,744	7,647	6,857	4,502	5,974	5,862
Net earnings (loss) attributable to equity holders of 5N Plus	**763**	(2,864)	2,709	1,749	592	146	1,030	1,758
Basic earnings (loss) per share attributable to equity holders of 5N Plus	**$0.01**	($0.03)	$0.03	$0.02	$0.01	$-	$0.01	$0.02
Net earnings (loss)	**763**	(2,864)	2,709	1,749	592	146	1,030	1,758
Basic earnings (loss) per share	**$0.01**	($0.03)	$0.03	$0.02	$0.01	$-	$0.01	$0.02
Diluted earnings (loss) per share	**$0.01**	($0.03)	$0.03	$0.02	$0.01	$-	$0.01	$0.02
Adjusted net earnings[1]	**1,789**	184	1,955	2,124	717	480	1,460	2,055
Basic adjusted net earnings per share[1]	**$0.02**	$-	$0.02	$0.03	$0.01	$0.01	$0.02	$0.02
Funds from operations[1]	**4,899**	4,355	11,181	5,520	4,774	3,343	4,570	4,866
Backlog[1]	**195 days**	189 days	171 days	202 days	188 days	243 days	215 days	201 days

[1] See Non-IFRS Measures