Consolidated Financial Statements

Years ended May 31, 2009 and 2008

consolidated financial statements

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

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

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

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

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

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

The consolidated financial statements have been audited by KPMG LLP.

SIGNED

JACQUES L'ÉCUYER
President and Chief Executive Officer

SIGNED

CHRISTIAN DUPONT, CA
Chief Financial Officer

Montréal, Canada
August 12, 2009

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

We have audited the consolidated balance sheets of 5N Plus Inc. as at May 31, 2009 and 2008 and the consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for each of the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

SIGNED:

KPMG LLP*
Chartered Accountants

Montréal, Canada
July 24, 2009

* CA Auditor permit no 13381

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Consolidated Statements of Earnings

Years ended May 31

(in Canadian dollars)		**2009**		2008 (Restated)
Sales	**$**	**69,373,117**	$	30,972,941
Cost of sales (note 12)		**34,174,231**		14,649,152
Gross profit		**35,198,886**		16,323,789
Expenses				
Selling and administrative		**5,277,745**		2,911,797
Depreciation of property, plant and equipment (note 4)		**2,154,552**		1,048,886
Research and development		**1,241,142**		930,232
Foreign exchange gain (note 14)		**(3,441,588)**		(124,710)
Financial (note 15)		**377,449**		360,903
Interest income		**(1,118,881)**		(419,901)
		4,490,419		4,707,207
Earnings before undernoted items		**30,708,467**		11,616,582
Start-up costs, new plant (note 1 (q) (vii))		**711,709**		1,288,292
Earnings before income taxes		**29,996,758**		10,328,290
Income taxes (note 11)				
Current		**7,727,016**		3,395,315
Future		**1,401,618**		(242,036)
		9,128,634		3,153,279
Net earnings	**$**	**20,868,124**	$	7,175,011
Earnings per share (note 19)				
Basic	**$**	**0.46**	$	0.20
Diluted	**$**	**0.45**	$	0.19
Weighted average number of common shares (note 19)				
Basic		**45,505,213**		35,308,641
Diluted		**45,876,122**		36,884,776

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

Consolidated Statements of Comprehensive Income

Years ended May 31

(in Canadian dollars)		**2009**		2008 (Restated)
Net earnings	**$**	**20,868,124**	$	7,175,011
Other comprehensive income (loss), net of income taxes:				
Unrealized loss on translating financial statements of self-sustaining foreign operation		**(343,467)**		–
Comprehensive income	**$**	**20,524,657**	$	7,175,011

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

Consolidated Statements of Changes in Shareholders' Equity

Years ended May 31

(in Canadian dollars)	**2009**	2008 (Restated)
Share capital (note 10)		
Beginning of period	**$ 81,788,694**	$ 998,338
Issuance of shares pursuant to options	**93,220**	94,369
Issuance of shares following the IPO	**–**	34,500,000
Issuance of shares following a bought-deal	**–**	46,200,000
Repurchases from shareholders	**–**	(4,013)
End of period	**$ 81,881,914**	$ 81,788,694
Contributed surplus		
Beginning of period	**$ 242,136**	$ 81,782
Compensation costs related to stock options	**588,209**	251,998
Options exercised	**(32,545)**	(91,644)
End of period	**$ 797,800**	$ 242,136
Accumulated other comprehensive income		
Beginning of period	**$ –**	$ –
Translation from the temporal method to the current rate method (note 1(c))	**232,419**	–
Unrealized foreign currency translation loss for the period	**(343,467)**	–
End of period	**$ (111,048)**	$ –
Retained earnings		
Beginning of period	**$ 8,931,974**	$ 6,466,347
Net earnings	**20,868,124**	7,175,011
Dividends	**–**	(1,000,000)
Share issue expenses, net of income taxes of $1,492,199	**–**	(3,643,334)
Excess of purchase price over stated value of shares purchased by the Company	**–**	(66,050)
End of period	**$ 29,800,098**	$ 8,931,974
Shareholders' equity	**$ 112,368,764**	$ 90,962,804

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

consolidated financial statements

Consolidated Balance Sheets

As at May 31

(in Canadian dollars)		**2009**		2008 (Restated)
Assets				
Current assets				
Cash and cash equivalents	**$**	**65,066,530**	$	59,576,743
Accounts receivable (note 2)		**6,702,197**		10,164,562
Inventories (note 3)		**27,054,960**		12,727,564
Prepaid expenses and deposits		**516,391**		348,504
Foreign currency forward contracts (note 14)		**1,685,076**		–
Future income taxes (note 11)		**249,958**		686,207
		101,275,112		83,503,580
Property, plant and equipment (note 4)		**26,178,423**		21,220,889
Grant receivable (note 17)		**–**		2,053,377
Future income taxes (note 11)		**662,639**		909,536
Other assets		**52,682**		55,681
	$	**128,168,856**	$	107,743,063
Liabilities and shareholders' equity				
Current liabilities				
Bank loan (note 5)	**$**	**–**	$	1,262,205
Accounts payable and accrued liabilities (note 6)		**6,791,675**		7,486,227
Income taxes payable		**3,021,632**		1,754,114
Current portion of long-term debt (note 7)		**549,922**		578,922
Current portion of other long-term liabilities (note 8)		**41,725**		270,251
Future income taxes (note 11)		**311,897**		–
		10,716,851		11,351,719
Long-term debt (note 7)		**3,997,923**		4,547,028
Other long-term liabilities (note 8)		**–**		127,906
Deferred revenue (note 9)		**641,618**		753,606
Future income taxes (note 11)		**443,700**		–
		15,800,092		16,780,259
Shareholders' equity				
Share capital (note 10)		**81,881,914**		81,788,694
Contributed surplus		**797,800**		242,136
Accumulated other comprehensive income		**(111,048)**		–
Retained earnings		**29,800,098**		8,931,974
		112,368,764		90,962,804
	$	**128,168,856**	$	107,743,063

Commitments (note 18)

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

On behalf of the Board:

SIGNED

JACQUES L'ÉCUYER
Director

SIGNED

JEAN-MARIE BOURASSA
Director

Consolidated Statements of Cash Flows

Years ended May 31

(in Canadian dollars)	**2009**	2008 (Restated)
Cash flows from operating activities		
Net earnings	**$ 20,868,124**	$ 7,175,011
Adjustments for:		
Future income taxes	**1,401,618**	(242,036)
Foreign exchange (gain) loss on cash and cash equivalents	**(168,919)**	67,645
Unrealized gain on derivative financial instruments	**(1,685,076)**	–
Depreciation of property, plant and equipment	**2,154,552**	1,048,886
Other amortizations	**84,525**	33,027
Loss on disposal of property, plant and equipment	**–**	38,766
Deferred revenue	**(115,986)**	753,606
Stock-based compensation	**588,209**	251,998
	23,127,047	9,126,903
Net change in non-cash working capital items		
Accounts receivable	**6,107,602**	(6,073,430)
Inventories	**(14,438,064)**	(9,419,754)
Prepaid expenses and deposits	**(165,501)**	(144,560)
Accounts payable and accrued liabilities	**323,341**	3,555,078
Income taxes payable	**1,285,220**	792,446
	16,239,645	(2,163,317)
Cash flows from financing activities		
Net change in bank loan	**(1,384,111)**	222,205
Net change in other long-term liabilities	**(356,432)**	(405,660)
Repayment of long-term debt	**(578,105)**	(7,045,610)
Issuance of shares	**60,675**	75,644,793
Increase in long-term debt, net of related financial expenses	**–**	8,400,000
Deferred financing fees	**–**	(64,990)
Purchase of shares	**–**	(70,063)
Dividends paid	**–**	(1,000,000)
Grants—property, plant and equipment	**–**	616,726
	(2,257,973)	76,297,401
Cash flows from investing activities		
Additions to property, plant and equipment	**(8,663,805)**	(16,004,152)
Deposits	**3,001**	(12,476)
	(8,660,804)	(16,016,628)
Effect of changes in foreign exchange rates on cash and cash equivalents	**168,919**	(67,645)
Net increase in cash and cash equivalents	**5,489,787**	58,049,811
Cash and cash equivalents, beginning of period	**59,576,743**	1,526,932
Cash and cash equivalents, end of period	**$ 65,066,530**	$ 59,576,743
Supplementary information		
Property, plant and equipment not paid and included in accounts payable and accrued liabilities	**$ 192,453**	$ 1,715,915
Interest paid	**$ 278,088**	$ 301,515
Income taxes paid	**$ 6,111,194**	$ 2,105,015

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

notes to consolidated financial statements

1. Summary of significant accounting policies

These consolidated financial statements are expressed in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

a. Basis of consolidation

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

b. Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include estimating the useful lives of long-lived assets, as well as assessing the recoverability of accounts receivable, research tax credits and future income taxes. Reported amounts and note disclosure reflect the overall economic conditions that are most likely to occur and anticipated measures to be taken by management. Actual results could differ from those estimates.

c. Foreign currency translation

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

As of June 1, 2008, following the commencement of the commercial operations of the Company's German subsidiary, the Company performed a reassessment of the classification criteria described in section 1651 of the Canadian Institute of Chartered Accountants ("CICA") Handbook "Foreign currency translation" of the subsidiary. Based on the new circumstances, the Company has now classified its foreign subsidiary as a self sustaining entity. The impact of the change from the temporal method to the current rate method resulted, as at June 1, 2008, in an adjustment of $232,419. This amount has been applied as an increase in property, plant and equipment and as an increase in shareholders' equity under the caption accumulated other comprehensive income.

d. Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and balances with banks as well as all highly liquid short-term investments with original maturities of 90 days or less. They are accounted for at their estimated fair value which approximates cost.

e. Inventories

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

From time to time, when substantially all of the required raw materials are in inventory, the Company may choose to enter into long-term sales contracts a fixed price. The quantity of raw materials required to fulfill these contracts are then specifically assigned the average cost of the raw material at the time the contract was executed.

1. Summary of significant accounting policies (continued)

f. Property, plant and equipment

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

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

g. Impairment and disposal of long-lived assets

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

h. Revenue recognition

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

Revenue also includes sales from custom refining activities. Under the terms of the agreements, all the material risks and advantages inherent in ownership are transferred to these customers at the time of their receipt of the refining products or delivery in accordance with the terms of the agreements and therefore revenue is recognized.

i. Research and development

Research expenditures are expensed as incurred. They include a reasonable proportion of indirect costs. Development expenditures are deferred when they meet the capitalization criteria provided for by Canadian GAAP, and it is considered reasonably certain that future advantages will be realized. As at May 31, 2009 and 2008, no development expenses were deferred.

j. Income taxes

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

1. Summary of significant accounting policies (continued)

k. Guarantees

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

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

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

m. Earnings per share

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

n. Government assistance

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

o. Financial instruments

Financial assets and liabilities are recognized on the consolidated balance sheet at fair value and their subsequent measurement depends of their classification, as described in Note 13. The classification depends on the objectives set forth when the financial instruments were purchased or issued, their characteristics and their designation by the Company.

Following is a summary of the accounting policy the Company has elected to apply to each of its categories of financial instruments:

Assets/liabilities	Category	Measurements
Cash and cash equivalents	Held-for-trading	Fair value
Trade accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Long-term debt	Other liabilities	Amortized cost

The amortized cost is established using the effective interest method. The Company has elected to account for transaction costs related to the issuance of the financial instruments as a reduction of the carrying value of the related financial instruments. Since the credit facility includes a line of credit and a loan term, the costs related to the issuance of these financial instruments are presented as a reduction of the financial instrument it relates to. Transaction costs are amortized using the straight-line method over the expected life of the facilities.

1. Summary of significant accounting policies (continued)

p. Derivative instruments

Freestanding derivative instruments are utilized by the Company to manage market risk against the volatility in foreign exchange rates in order to minimize their impact on the Company's results and financial position. The most frequently used derivative instruments by the Company are forward foreign currency contracts. These instruments are carried at fair value at each balance sheet date. Short-term and long-term derivative assets have been included as part of accounts receivable and other assets, respectively. Short-term and long-term derivative liabilities have been included as part of accounts payable and accrued liabilities, and deferred gains and other long-term liabilities, respectively.

q. Changes in accounting policies

On June 1, 2008, the Company adopted the following sections of the CICA Handbook:

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

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

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

iv. Section 3862, "Financial Instruments–Disclosures", describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The cash and cash equivalents have been classified as available-for-sale assets. The Company does not carry any loans receivable, and its accounts receivable and grant receivable are measured at amortized cost, which approximates cost. The Company's accounts payable and accrued liabilities, income taxes payable and the long-term debt have been classified as other financial liabilities and are, therefore, measured at amortized cost.

v. Section 3863, "Financial Instruments–Presentation", establishes standards for the presentation of financial instruments and non-financial derivatives. It details the presentation of standards described in Section 3861, "Financial Instruments–Disclosure and Presentation".

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

On March 1, 2009, the Company adopted the following accounting policies:

vi. The Emerging Issues Committee ("EIC") issued EIC-173 "Credit risk and the fair value of financial assets and financial liabilities", which requires that the fair value of financial instruments, including derivative financial instruments, takes into account the counterparties' credit risk for assets and the Company's credit risk for liabilities.

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

1. Summary of significant accounting policies (continued)

vii. In January 2008, the CICA issued Section 3064 "Goodwill and Intangible Assets", which replaces Section 3062 "Goodwill and Others Intangible Assets", and results in the withdrawal of Section 3450 "Research and Development Costs", and Emerging Issues Committee Abstract 27 "Revenues and Expenditures during the Pre-operating Period", and amendments to Accounting Guideline No 11 "Enterprises in the Development Stage". The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company has adopted retroactively this accounting standard to the Company's consolidated financial statements for the year ended May 31 2008 and the main impacts are:

		Increase (Decrease)
Consolidated statement of earnings		
Start-up costs	$	821,008
Earnings before income taxes	$	(821,008)
Income taxes	$	(229,882)
Net earnings	$	(591,126)
Consolidated balance sheet		
Current assets—Future income taxes	$	229,882
Deferred start-up costs	$	(821,008)
Retained earnings	$	(591,126)

r. Future changes in accounting policies

i. In 2005, the Accounting Standards Board of Canada announced that accounting standards in Canada are to converge with International Financial Reporting Standards ("IFRS"). In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards" into Canadian GAAP. This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian GAAP with IFRS. In February 2008, the CICA confirmed the change over date from current Canadian GAAP to IFRS to be January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policies which must be addressed. The Company is currently evaluating the impact of these new standards.

ii. In January 2009, the CICA approved three new accounting standards Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests".

Section 1582 replaces former Section 1581 "Business Combinations" and establishes standards for the accounting of a business combination. Section 1582 provides the Canadian equivalent to IFRS 3—"Business Combinations. Section 1582 requires additional use of fair value measurements, recognition of additional assets and liabilities, and increased disclosure for the accounting of a business combination and that acquisition costs will be recognized as expenses.

Sections 1601 and 1602 replace former Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements and Section 1602, which converges with the requirements of International Accounting Standard 27 ("IAS 27"), "Consolidated and Separate Financial Statements", establishes standards for accounting of a non-controlling interest resulting from a business acquisition, recognized as a distinct component of shareholders' equity. Net income will present the allocation between the controlling and non-controlling interests.

All three standards are effective at the same time Canadian public companies will have adopted IFRS, for fiscal year beginning on or after January 1, 2011. As of today, we have not evaluated the impact of these new standards.

2. Accounts receivable

As at May 31		2009		2008
Trade accounts receivable	$	**3,826,686**	$	6,380,487
Commodity taxes		**417,073**		2,203,808
Grant receivable (note 17)		**2,518,930**		1,540,760
Other		**39,508**		39,507
Allowance for doubtful accounts		**(100,000)**		–
	$	**6,702,197**	$	10,164,562

Chronological history of trade accounts receivable:

		2009		2008
Current	$	**3,327,781**	$	6,154,326
0 to 30 days overdue		**301,225**		157,556
31 to 60 days overdue		**1,915**		39,009
61 to 120 days overdue		**195,765**		29,596
	$	**3,826,686**	$	6,380,487

3. Inventories

As at May 31		2009		2008
Raw materials	$	**18,183,623**	$	9,809,207
Finished goods		**8,871,337**		2,918,357
	$	**27,054,960**	$	12,727,564

4. Property, plant and equipment

				As at May 31, 2009		
		Cost		Accumulated depreciation		Net book value
Land	$	**534,632**	$	**–**	$	**534,632**
Buildings		**11,425,865**		**824,312**		**10,601,553**
Leasehold improvements		**1,545,668**		**335,958**		**1,209,710**
Production equipment		**17,266,938**		**4,259,315**		**13,007,623**
Rolling stock		**47,441**		**39,093**		**8,348**
Furniture and equipment		**278,802**		**89,995**		**188,807**
Computer equipment		**848,842**		**221,092**		**627,750**
	$	**31,948,188**	$	**5,769,765**	$	**26,178,423**

4. Property, plant and equipment (continued)

	As at May 31, 2008		
	Cost	Accumulated depreciation	Net book value
Land	$ 534,380	$ –	$ 534,380
Buildings	4,497,408	398,714	4,098,694
Leasehold improvements	1,355,026	252,007	1,103,019
Production equipment	8,567,120	2,781,503	5,785,617
Rolling stock	47,441	33,820	13,621
Furniture and equipment	150,515	67,620	82,895
Computer equipment	402,381	104,674	297,707
Construction project	9,304,956	–	9,304,956
	$ 24,859,227	$ 3,638,338	$ 21,220,889

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

	2009	2008
Cost of goods sold	**$ 2,002,747**	$ 985,931
Administrative expenses	**145,141**	57,061
Research and development expenses	**6,664**	5,894
	$ 2,154,552	$ 1,048,886

5. Bank loan

On October 10, 2008, a credit facility of $25,000,000 was granted to the Company including an increase of capital clause which would permit, under certain conditions, to increase the credit to $30,000,000. This credit facility is composed of two tranches, consisting of a bank credit of $7,500,000 which is guaranteed by accounts receivable and inventories, and a seven-year term loan in the amount of $17,500,000, repayable in quarterly installments, which will be used for business and fixed assets acquisitions. This credit facility bears interest at prime rate plus 0.0% to 0.50% based upon a financial ratio calculation.

6. Accounts payable and accrued liabilities

	2009	2008
Trade accounts payable and accrued liabilities	**$ 5,336,845**	$ 6,641,201
Salaries and vacations	**1,324,469**	845,026
Commodity taxes	**130,361**	–
	$ 6,791,675	$ 7,486,227

7. Long-term debt

	2009	2008
Loan at the lender's floating rate less 1.40%, repayable commencing June 17, 2008 in 120 monthly installments of $41,667, principal only, secured by a building.	**$ 4,497,923**	$ 4,997,107
Loan, effective interest rate of 5%, repayable until April 2010 in semi-annual installments of $24,967.	**49,922**	99,843
Loan, 6.8%, reimbursed in September 2008	**–**	29,000
	4,547,845	5,125,950
Current portion of long-term debt	**(549,922)**	(578,922)
	$ 3,997,923	$ 4,547,028

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

2010	$ 549,922
2011	$ 500,000
2012	$ 500,000
2013	$ 500,000
2014	$ 500,000
Thereafter	$ 1,997,923

The Company is required to maintain certain ratios in order to comply with the respective loan agreements. As of May 31, 2009, the Company complied with the terms and conditions of the loans.

8. Other long-term liabilities

	2009	2008
Deposit received from a customer, effective interest rate of 5%, repayable in U.S. dollars, at the rate of $70 per kilogram of sales made to this customer until April 2010.	**$ 41,725**	$ 279,593
Deposit received from a customer, effective interest rate of 5%, repaid in 2009.	**–**	118,038
Other	**–**	526
	41,725	398,157
Current portion	**(41,725)**	(270,251)
	$ –	$ 127,906

9. Deferred revenue

The wholly-owned German subsidiary 5N PV, received in 2008 €540,000 from a German company for the creation of new jobs. This deferred income will be amortized over a three-year period in conjunction with the creation of new jobs at our German plant. A letter of credit for the same amount was issued in favor of the German company in the event that 5N PV is not able to comply with the terms of this agreement. An amount of $115,986 ($34,352 in 2008) was recognized as revenue in 2009.

10. Share capital

Authorized

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

An unlimited number of preferred shares may be issued in one or more series with specific terms, privileges and restrictions to be determined for each class by the Board of Directors.

Issued and fully paid

	Number		Amount
Common shares	29,635,954	$	963,756
Issuance of shares following the IPO	11,500,000		34,500,000
Issuance of shares following a bought-deal	4,000,000		46,200,000
Issuance of shares following the conversion of Class B shares	364,046		124,938
Outstanding as at May 31, 2008	45,500,000		81,788,694
Issuance of shares pursuant to options	20,225		93,220
Outstanding as at May 31, 2009	45,520,225	$	81,881,914
Class B shares			
Outstanding as at May 31, 2007	251,500	$	34,582
Issuance of shares pursuant to options	135,181		94,369
Repurchases from shareholders	(22,635)		(4,013)
Conversion of Class B shares in common shares	(364,046)		(124,938)
Outstanding as at May 31, 2008	–	$	–

The number of common shares and Class B shares outstanding and the weighted average number of common shares, basic and diluted outstanding as well as the calculation of net earnings per basic and diluted shares for the year ended May 31, 2008 were adjusted retroactively taking into consideration the stock split following the IPO.

Normal course issuer bid

On December 2, 2008 the Company announced its intention to repurchase for cancellation up to 2,275,000 common shares over the twelve-month period starting on December 4, 2008 and ending on December 3, 2009, representing 5% of 5N Plus' issued and outstanding common shares. The purchases by the Company will be effected through the facilities of the Toronto Stock Exchange and will be made at the market price of the common shares at the time of the purchase. In the financial year ended May 31, 2009 no common shares were repurchased.

Stock option plan

During the year ended May 31, 2009, 20,225 shares were issued under the Stock Option Plan for a cash consideration of $60,675 (135,181 Class B shares for a cash consideration of $2,725 in 2008). The amount previously recorded in contributed surplus of $32,545 ($91,644 in 2008) relating to these exercised options has been reclassified into share capital.

In October 2007, the Company introduced a new stock option plan for directors, officers and employees. The maximum number of common shares that can be issued upon the exercise of options granted is equal to 10% of the aggregate number of common shares issued and outstanding from time-to-time. The maximum period during which an option may be exercised is ten years from the date of the grant. For the year ended May 31, 2009 the Company granted 466,430 options (1,042,200 on December 20, 2007) at a weighted average price of $5.42 per option ($3.00 per option on December 20, 2007). Options vest at a rate of 25% (100% for the directors) per year, beginning one year following the grant date of the options.

10. Share capital (continued)

The following presents the assumptions used to establish the fair value assigned to the options issued using the Black-Scholes valuation model:

	2009	2008
Expected volatility	**68%**	72%
Dividend	**None**	None
Risk-free interest rate	**2.50%**	4.25%
Risk-free interest rate (directors)	**2.25%**	4.00%
Expected life	**3.5 years**	3.5 years
Expected life (directors)	**1 year**	1 year
Fair value—weighted average of options issued	**2.46**	1.42

		2009			2008	
	Stock option		Weighted average exercise price	Stock option		Weighted average exercise price
Beginning of period	**1,032,500**	**$**	**3.00**	10,750	$	0.26
Granted	**466,430**	**$**	**5.42**	1,042,200	$	3.00
Cancelled	**(39,650)**	**$**	**3.00**	(9,700)	$	3.00
Exercised	**(20,225)**	**$**	**3.00**	(10,750)	$	0.26
End of period	**1,439,055**	**$**	**3.78**	1,032,500	$	3.00

Stock-based compensation cost is allocated as follows:

		2009		2008
Cost of goods sold	**$**	**133,276**	$	59,839
Selling and administrative expenses		**370,254**		163,897
Research and development expenses		**84,679**		28,262
	$	**588,209**	$	251,998

11. Income taxes

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

			2009			2008
Income taxes at statutory tax rates	**$**	**9,268,998**	**30.9 %**	$	3,259,848	31.6 %
Non-deductible items		**217,935**	**0.7 %**		90,641	0.9 %
Non-taxable research and development tax credits		**(83,221)**	**(0.3)%**		(27,234)	(0.3)%
Difference of tax rates applicable to a foreign subsidiary		**(112,232)**	**(0.4)%**		(51,536)	(0.5)%
Prior years' tax adjustments and assessments		**(162,846)**	**(0.5)%**		(29,454)	(0.3)%
Effect of recognition of losses of a foreign subsidiary		**–**			(88,986)	(0.9)%
	$	**9,128,634**	**30.4 %**	$	3,153,279	30.5 %

11. Income taxes (continued)

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

	2009	2008
Future income tax assets		
Inventories	**$ 249,958**	$ –
Property, plant and equipment	**662,639**	798,536
Share issue expenses	**1,051,210**	1,348,172
Deferred loss	**–**	449,707
Others	**62,586**	21,828
	$ 2,026,393	$ 2,618,243
Future income tax liabilities		
Property, plant and equipment	**$ (1,263,303)**	$ (919,104)
Non-taxable research and development tax credits	**(93,380)**	(83,500)
Unrealized foreign exchange gain	**(512,710)**	(19,896)
	$ (1,869,393)	$ (1,022,500)
Future income tax assets	**$ 157,000**	$ 1,595,743

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

	2009	2008
Future income tax assets		
Short-term	**$ 249,958**	$ 686,207
Long-term	**662,639**	909,536
	$ 912,597	$ 1,595,743
Future income tax liabilities		
Short-term	**$ 311,897**	$ –
Long-term	**443,700**	–
	$ 755,597	$ –
Net future income tax assets	**$ 157,000**	$ 1,595,743

12. Cost of sales

The following table presents the reconciliation of the cost of sales reflected in earnings to the inventory amount charged to expense during the period:

	2009	2008
Cost of sales	**$ 34,174,231**	$ 14,649,152
Depreciation of property, plant and equipment related to the transformation of inventories	**2,002,747**	985,931
Inventory amount charged to expense	**$ 36,176,978**	$ 15,635,083

13. Financial instruments

Risk management policies and processes

In the normal course of its operations, the Company is exposed to credit risk, liquidity and financing risk, interest rate risk as well as price risk and currency risk. Management analyses these risks and implements strategies in order to minimize their impact on the Company's performance.

Credit risk and significant customer

The Company has a conservative approach with regard to the management of its cash and cash equivalents. The Investment Policy stipulates that the funds have to be 100% guaranteed and allocated among three recognized financial institutions, and finally the President and Chief Executive Officer, and the Chief Financial Officer jointly authorize the type and terms of the investments.

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

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

b) The Company does not require additional guarantee or other securities from its clients in regards to its accounts receivable. However, credit is granted only to clients after a credit analysis is performed. The Company conducts ongoing evaluations of its clients and establishes provisions for doubtful accounts, should an account be considered not recoverable.

c) One customer represented approximately 78% (67% in 2008) of sales in the fiscal year 2009 and 79% of accounts receivable as at May 31, 2009 (54% in 2008).

Liquidity and financing risk

The Company makes use of short and long-term financing at several financial institutions. Should a significant decrease in cash and cash equivalents occur, the Company could make use of these facilities.

The following are the contractual maturities of financial liabilities as at May 31, 2009:

	Carrying amount	Contractual cash flows	0 to 6 months	6 to 12 months	12 to 24 months	After 24 months
Accounts payable and accrued liabilities	$ 6,791,675	$ 6,791,675	$ 6,791,675	$ –	$ –	$ –
Long-term debt	4,547,845	5,130,413	335,223	334,044	607,477	3,853,669
Other long-term liabilities	41,725	41,725	41,725		–	–
	$ 11,381,245	$ 11,963,813	$ 7,168,623	$ 334,044	$ 607,477	$ 3,853,669

Contractual cash flows include interest charges.

Interest rate risk

The issuance of 4,000,000 common shares in April 2008 generated gross proceeds of $46,200,000. Therefore, the Company's level of debt is currently low, and bears interest at floating rate. Should its indebtedness increase, the Company's policy would be to limit its exposure to interest rate risk variations by ensuring that a reasonable portion of the debt is at fixed rates. Management does not believe that the impact of interest rate fluctuations will be significant on its operating results. A 0.50% fluctuation of interest rate of on every $10,000,000 in cash and cash equivalents would annually impact interest income by $50,000.

Price risk

The Company is exposed to a risk of fluctuations in market prices for metals. This risk is managed by adequately forecasting and scheduling the acquisition of inventories to meet its fixed price contractual obligations to its customers. Financial instruments do not expose the Company to raw material price risks.

13. Financial instruments (continued)

Currency risk

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

a. On November 20, 2008, the Company concluded a foreign currency forward contract totaling €4,500,000 at an average conversion rate of 1.59. This foreign currency forward contract of €250,000 per month is effective from December 15, 2008 until May 14, 2010. For the year ended May 31, 2009 the Company recorded a gain in the amount of $87,194 in regard to this foreign currency exchange contract.

b. On October 9, 2008, the Company concluded a foreign currency forward contract totaling US$6,000,000 at an average conversion rate of 1.135. This foreign currency forward contract of US$500,000 per month is effective from November 3, 2008 until October 30, 2009. For the year ended May 31, 2009 the Company recorded a loss in the amount of $199,451 in regard to this foreign currency exchange contract.

c. On March 19, 2009, the Company concluded a foreign currency forward contract totaling €5,300,000 at an average conversion rate of 1.64. This foreign currency forward contract of €150,000 up to €350,000 by month is effective from April, 1, 2009 until February 28, 2011. For the year ended May 31, 2009 the Company recorded a gain in the amount of $542,020 in regard to this foreign currency exchange contract.

d. On March 27, 2009, the Company concluded a foreign currency forward contract totaling US$7,050,000 at an average conversion rate of 1.227. This foreign currency forward contract of US$250,000 up to US$350 000 by month will be effective from September, 1, 2009 until August 31, 2011. For the year ended May 31, 2009 the Company recorded a gain in the amount of $962,937 in regard to this foreign currency exchange contract.

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

As at May 31, 2009, the Company had the following exposure on:

	USD	EUR
Financial assets and liabilities measured at amortized costs:		
Cash and cash equivalents	**1,755,567**	**378,446**
Accounts receivable	**2,212,613**	**12,000**
Receivable from the wholly-owned subsidiary	**731,941**	**2,605,309**
Payable from the wholly-owned subsidiary	**–**	**(1,306)**
Accounts payable and accrued liabilities	**(2,674,443)**	**–**
Other long-term liabilities	**(73,551)**	**–**
Total exposure from above	**1,952,127**	**2,994,449**

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

	CDN/USD	CDN/EUR
Exchange rate as at May 31, 2009	**1.0961**	**1.5484**
Impact on net earnings based on a fluctuation of five cents in the Canadian dollar exchange rate	**$ 66,860**	**$ 135,598**

Amounts above do not include the wholly-owned subsidiary accounts balance as it is using the Euro as functional currency. However, intercompany account balances in Euros are included in these amounts.

13. Financial instruments (continued)

Fair value

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

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

The fair value of the long-term debt approximates their carrying value as the Company's borrowing terms and conditions reflect current market conditions.

The fair value of long-term debt and other long-term liabilities received, without interest, approximated their carrying value as at May 31, 2009 and as at May 31, 2008.

14. Foreign exchange gain

	2009	2008
Foreign exchange gain related to operations	**$ 1,523,887**	$ 124,710
Realized gain on derivative financial instruments	**232,625**	–
Unrealized gain on derivative financial instruments	**1,685,076**	–
	$ 3,441,588	$ 124,710

15. Financial expenses

	2009	2008
Interest and bank charges	**$ 112,560**	$ 90,599
Interest on long-term debt	**195,732**	258,259
Amortization of deferred expenses	**69,157**	12,045
	$ 377,449	$ 360,903

16. Capital management

The Company is not subject to any external restrictions on its capital.

The Company's objectives when managing capital are:

- To maintain a flexible capital structure, this optimizes the cost of capital at acceptable risk;
- To sustain future development of the Company, including research and development activities, expansion of existing facilities or construction of new facilities and potential acquisitions of complementary businesses or products; and
- To provide the Company's shareholders an appropriate return on their investment.

The Company defines its capital as shareholders' equity.

16. Capital management (continued)

Shareholders' equity of the Company amounted to $112,368,764 and $90,962,804 as at May 31, 2009 and as at May 31, 2008, respectively. The increase reflects principally the net earnings recorded in the year ended May 31, 2009.

The Company manages its capital structure based on the relationship between the net debt and capital. Net debt represents the sum of short-term and long-term financial debt, for both current and long-term portions, net of cash and cash equivalents.

Since the completion of the share issuances during the year ended May 31, 2008, the Company has maintained capital in excess of its current needs and has invested such capital in cash and cash equivalents in order to maintain/retain the maximum flexibility to take advantage of acquisition or expansion opportunities.

17. Government assistance

During the years ended May 31, 2009 and 2008, the Company recorded research and development tax credits amounting to $423,603 and $499,079 respectively. These tax credits are subject to review and approval from taxation authorities.

During the years ended May 31, 2009 and 2008, the Company received grants from Investissement Québec totalling $0 and $85,492, respectively. These grants were recorded as a reduction of property, plant and equipment.

During the year ended May 31, 2008, the Company recorded, in its German subsidiary, two grants received from the tax authorities and economic support groups totalling $4,125,371, of which an amount of $2,518,930 remains outstanding as at May 31, 2009 ($3,594,137 as at May 31, 2008), is recorded as a short-term receivable ($1,540,760 as a short-term receivable and $2,053,377 as a long-term receivable in 2008) and is expected to be received during fiscal year ending May 31, 2010.

18. Commitments

a. The Company rents certain premises and equipment under the terms of operating leases expiring in May 2012 for premises with options to renew and June 2013 for the equipment. The rental expenses related to operating leases for the year ended May 31, 2009 were $701,833. Future minimum payments excluding operating costs for the next years are as follows:

2010	$	640,268
2011		610,268
2012		610,268
2013		208,216
2014		17,351
	$	2,086,371

b. As at May 31, 2009, the Company had placed orders with suppliers for the purchase of fixed assets in the aggregate amount of $239,321 ($1,186,184 as at May 31, 2008).

c. The Company's Germany subsidiary is committed to a number of conditions in its supply agreement with First Solar. In addition to the start-up of the German plant by August 2008, which did occur, these conditions include the supply of minimum quantities of products and certain recycling obligations. In the event the Company is unable to fulfill these conditions within the prescribed time frame, the Company could be forced to transfer the ownership of its German facility to First Solar for a consideration approximating the Company' acquisition cost.

19. Earnings per share

As at May 31	2009	2008
Numerator		
Net earnings	**$ 20,868,124**	$ 7,175,011
Denominator		
Weighted average number of common shares	**45,505,213**	35,308,641
Effect of dilutive securities		
Stock options	**370,909**	321,319
Convertible notes	**–**	1,254,816
	45,876,122	36,884,776
Earnings per share		
Basic	**$ 0.46**	$ 0.20
Diluted	**$ 0.45**	$ 0.19

20. Segment information

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

Geographical information

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

	2009	2008
Sales to customers located in the following geographical areas:		
United States	**$ 40,559,556**	$ 15,526,294
Europe	**20,774,725**	12,521,891
Asia	**6,431,033**	634,251
Canada	**1,591,612**	979,822
Other countries	**16,191**	1,310,683
Years ended May 31	**$ 69,373,117**	$ 30,972,941

	2009	2008
Property, plant and equipment in the following countries:		
Canada	**$ 13,424,454**	$ 11,501,758
Germany	**12,753,969**	9,719,131
As at May 31	**$ 26,178,423**	$ 21,220,889

21. Comparative figures

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