5N PLUS

Interim Consolidated Financial Statements

three and nine-month periods ended

February 28, 2009

(unaudited)

**5N Plus Inc.**
**Interim Consolidated Statements of Earnings**
**Periods ended February 28, 2009 and February 29, 2008**
(unaudited)

| | Three months | | Nine months | |
|---|---|---|---|---|
| (in Canadian dollars) | 2009 | 2008 | 2009 | 2008 |
| Sales | $ 19,150,195 | $ 8,358,817 | $ 51,315,894 | $ 21,549,033 |
| Cost of sales (note 9) | 9,309,927 | 3,904,679 | 24,613,624 | 10,841,082 |
| Gross profit | 9,840,268 | 4,454,138 | 26,702,270 | 10,707,951 |
| Expenses | | | | |
| Selling and administrative | 1,343,814 | 827,715 | 3,606,876 | 2,008,283 |
| Research and development | 333,238 | 203,008 | 817,865 | 864,384 |
| Foreign exchange (gain) loss (note 11) | 96,926 | 60,766 | (1,265,775) | 77,561 |
| Financial (note 12) | 130,812 | 51,196 | 333,706 | 303,811 |
| Interest income | (227,205) | (169,219) | (996,316) | (169,219) |
| Depreciation of property, plant and equipment | 603,077 | 266,980 | 1,553,111 | 751,149 |
| Amortization of deferred start-up costs | 172,912 | - | 380,356 | - |
| | 2,453,574 | 1,240,446 | 4,429,823 | 3,835,969 |
| Earnings before undernoted items | 7,386,694 | 3,213,692 | 22,272,447 | 6,871,982 |
| Start-up costs, new plant | - | 22,421 | 206,390 | 195,777 |
| Earnings before income taxes | 7,386,694 | 3,191,271 | 22,066,057 | 6,676,205 |
| Income taxes | | | | |
| Current | 2,248,822 | 1,021,559 | 6,324,095 | 2,062,689 |
| Future | 33,901 | (99,000) | 493,869 | 26,000 |
| | 2,282,723 | 922,559 | 6,817,964 | 2,088,689 |
| Net earnings | $ 5,103,971 | $ 2,268,712 | $ 15,248,093 | $ 4,587,516 |
| Earnings per share (note 7) | | | | |
| Basic | $ 0.11 | $ 0.06 | $ 0.34 | $ 0.14 |
| Diluted | $ 0.11 | $ 0.06 | $ 0.33 | $ 0.13 |
| Weighted average number of common shares (note 7) | | | | |
| Basic | 45,505,413 | 39,006,408 | 45,501,804 | 32,748,039 |
| Diluted | 45,815,527 | 39,996,036 | 45,889,182 | 34,595,195 |

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

**5N Plus Inc.**
**Interim Consolidated Statements of Comprehensive Income**
**Periods ended February 28, 2009 and February 29, 2008**
(unaudited)

| | Three months | | Nine months | |
|---|---|---|---|---|
| (in Canadian dollars) | 2009 | 2008 | 2009 | 2008 |
| Net earnings | $ 5,103,971 | $ 2,268,712 | $ 15,248,093 | $ 4,587,516 |
| Unrealized gain on translating financial statements | | | | |
| of self-sustaining foreign operation | 347,736 | - | 384,773 | - |
| Comprehensive income | $ 5,451,707 | $ 2,268,712 | $ 15,632,866 | $ 4,587,516 |

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

**5N Plus Inc.**
**Interim Consolidated Statements of Retained Earnings**
**Periods ended February 28, 2009 and February 29, 2008**
(unaudited)

| | Three months | | Nine months | |
|---|---|---|---|---|
| (in Canadian dollars) | 2009 | 2008 | 2009 | 2008 |
| Retained earnings, beginning of period | $ 19,667,222 | $ 7,719,101 | $ 9,523,100 | $ 6,466,347 |
| Net earnings | 5,103,971 | 2,268,712 | 15,248,093 | 4,587,516 |
| Dividends | - | - | - | (1,000,000) |
| Share issue expenses, net of income taxes of $1,000,000 | - | (2,082,994) | - | (2,082,994) |
| Excess of purchase price over stated value | | | | |
| of shares purchased by the Company | - | - | - | ( 66 050) |
| Retained earnings, end of period | $ 24,771,193 | $ 7,904,819 | $ 24,771,193 | $ 7,904,819 |

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

**5N Plus Inc.**
**Interim Consolidated Balance Sheets**

| (in Canadian dollars) | As at February 28, 2009 (unaudited) | As at May 31, 2008 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | $ 62,187,563 | $ 59,576,743 |
| Accounts receivable (note 2) | 5,234,040 | 10,164,562 |
| Inventories (note 3) | 27,942,334 | 12,727,564 |
| Prepaid expenses and deposits | 749,407 | 348,504 |
| Future income taxes | 174,000 | 456,325 |
| | 96,287,344 | 83,273,698 |
| Property, plant and equipment (note 4) | 26,229,667 | 21,220,889 |
| Grant receivable | 2,135,682 | 2,053,377 |
| Future income taxes | 735,540 | 909,536 |
| Deferred start-up costs | 978,504 | 821,008 |
| Other assets | 52,682 | 55,681 |
| | $ 126,419,419 | $ 108,334,189 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities | | |
| Bank loan | $ 616,111 | $ 1,262,205 |
| Accounts payable and accrued liabilities | 10,040,271 | 7,486,227 |
| Income taxes payable | 2,443,427 | 1,754,114 |
| Current portion of long-term debt | 549,922 | 578,922 |
| Current portion of other long-term liabilities | 48,371 | 270,251 |
| | 13,698,102 | 11,351,719 |
| Long-term debt | 4,147,893 | 4,547,028 |
| Deferred revenue | 707,871 | 753,606 |
| Other long-term liabilities | - | 127,906 |
| | 18,553,866 | 16,780,259 |
| **Shareholders' Equity** | | |
| Share capital (note 5) | 81,838,589 | 81,788,694 |
| Contributed surplus (note 6) | 638,579 | 242,136 |
| Accumulated other comprehensive income (note 8) | 617,192 | - |
| Retained earnings | 24,771,193 | 9,523,100 |
| | 107,865,553 | 91,553,930 |
| | $ 126,419,419 | $ 108,334,189 |

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

**5N Plus Inc.**
**Interim Consolidated Statements of Cash Flows**
**Periods ended February 28, 2009 and February 29, 2008**
(unaudited)

| | Three months | | Nine months | |
|---|---|---|---|---|
| (in Canadian dollars) | 2009 | 2008 | 2009 | 2008 |
| **Cash flows from operating activities** | | | | |
| Net earnings | $ 5,103,971 | $ 2,268,712 | $ 15,248,093 | $ 4,587,516 |
| Adjustments for: | | | | |
| Future income taxes | 33,901 | (99,000) | 493,869 | 26,000 |
| Depreciation of property, plant and equipment | 603,077 | 266,980 | 1,553,111 | 751,149 |
| Loss on disposal of property, plant and equipment | - | - | - | 38,766 |
| Amortization of deferred start-up costs and other assets | 196,154 | 5,450 | 449,217 | 6,542 |
| Amortization of deferred revenue | (41,348) | - | (121,249) | - |
| Deferred revenue | - | 802,600 | - | 802,600 |
| Stock-based compensation | 135,376 | 110,305 | 413,863 | 115,236 |
| | 6,031,131 | 3,355,047 | 18,036,904 | 6,327,809 |
| Net change in non-cash working capital items | | | | |
| Accounts receivable | 1,588,720 | (1,397,517) | 5,574,774 | (2,776,213) |
| Inventories | (4,789,107) | (208,305) | (15,173,711) | (3,374,181) |
| Prepaid expenses and deposits | (350,990) | (402,706) | (394,816) | (519,712) |
| Accounts payable and accrued liabilities | 1,975,086 | 201,962 | 3,406,900 | 2,901,985 |
| Income taxes payable | 1,332,781 | 469,125 | 670,872 | (354,169) |
| | 5,787,621 | 2,017,606 | 12,120,923 | 2,205,519 |
| **Cash flows from financing activities** | | | | |
| Bank loan | (2,389,294) | (2,335,949) | (755,600) | (1,040,000) |
| Other assets and long-term liabilities | (106,411) | (19,097) | (349,786) | (256,759) |
| Increase in long-term debt, net of related financial expenses | - | - | - | 4,404,179 |
| Repayment of long-term debt | (124,858) | (6,346,698) | (428,135) | (6,921,762) |
| Deferred financing fees | - | - | - | (55,000) |
| Purchase of shares | - | - | - | (70,063) |
| Issuance of shares | 32,475 | 31,417,006 | 32,475 | 31,419,732 |
| Dividends paid | - | - | - | (1,000,000) |
| Deferred costs | - | (160,518) | - | (160,518) |
| Grants - property, plant and equipment | - | 85,492 | - | 85,492 |
| | (2,588,088) | 22,640,236 | (1,501,046) | 26,405,301 |
| **Cash flows from investing activities** | | | | |
| Additions to property, plant and equipment | (1,497,028) | (4,652,313) | (7,534,369) | (10,201,736) |
| Deposits | - | - | 3,001 | (35,946) |
| Deferred start-up costs | (53,882) | - | (503,162) | - |
| | (1,550,910) | (4,652,313) | (8,034,530) | (10,237,682) |
| Effect of changes in foreign exchange rate on cash | 10,705 | - | 25,473 | - |
| Increase in cash and cash equivalents | 1,659,328 | 20,005,529 | 2,610,820 | 18,373,138 |
| Cash and cash equivalents, beginning of period | 60,528,235 | (105,459) | 59,576,743 | 1,526,932 |
| Cash and cash equivalents, end of period | $ 62,187,563 | $ 19,900,070 | $ 62,187,563 | $ 19,900,070 |
| **Supplementary information** | | | | |
| Property, plant and equipment not paid and included in accounts payable and accrued liabilities | $ 307,257 | $ - | $ 307,257 | $ - |
| Interest paid | $ 80,283 | $ 93,591 | $ 232,014 | $ 298,647 |
| Income taxes paid | $ 690,000 | $ 463,827 | $ 4,749,759 | $ 2,103,790 |

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

## 1. Summary of Significant Accounting Policies

These unaudited interim consolidated financial statements of the Company, for the three-month and nine-month periods ended February 28, 2009 and February 29, 2008, have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and should be read in conjunction with the May 31, 2008 audited annual consolidated financial statements.

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

### Changes in accounting policies

On June 1, 2008, the Company adopted the following sections of the Canadian Institute of Chartered Accountants ("CICA") Handbook:

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

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

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

d) Section 3862, "Financial Instruments - Disclosures", describes the required disclosures to evaluate the significance of financial instruments for the entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. The cash and cash equivalents have been classified as available-for-sale assets. The Company does not carry any loans receivable, and its accounts receivable and grant 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.

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

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

(in Canadian dollars)

**Future changes in accounting policies**

a) In January 2008, the CICA issued Section 3064 “Goodwill and Intangible Assets”, which replaces Section 3062 “Goodwill and Others Intangible Assets”, and results in the withdrawal of Section 3450 “Research and Development Costs”, and Emerging Issues Committee Abstract 27 “Revenues and Expenditures during the Pre-operating Period”, and amendments to Accounting Guideline No 11 “Enterprises in the Development Stage”. The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The deferred start-up costs as at May 31, 2009 are estimated at $806,000 and will be written-off as a result of the adoption of this new standard and the corresponding 2008 annual and quarterly figures will be restated.

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

## 2. Accounts receivable

| | As at February 28, 2009 | As at May 31, 2008 (audited) |
|---|---|---|
| Trade accounts receivable | $ 4,210,860 | $ 6,380,487 |
| Commodity taxes | 502,167 | 2,203,808 |
| Grant receivable | 481,506 | 1,540,760 |
| Other | 39,507 | 39,507 |
| | $ 5,234,040 | $ 10,164,562 |

| | As at February 28, 2009 | As at May 31, 2008 (audited) |
|---|---|---|
| Chronological history of trade accounts receivable : | | |
| Current | $ 3,873,140 | $ 6,154,326 |
| 0 to 30 days overdue | 140,492 | 157,556 |
| 31 to 60 days overdue | 149,479 | 39,009 |
| 61 to 120 days overdue | 47,749 | 29,596 |
| | $ 4,210,860 | $ 6,380,487 |

(in Canadian dollars)

## 3. Inventories

| | | As at February 28, 2009 | | As at May 31, 2008 (audited) |
|---|---|---|---|---|
| Raw materials | $ | 20,571,365 | $ | 9,809,207 |
| Finished goods | | 7,370,969 | | 2,918,357 |
| | $ | 27,942,334 | $ | 12,727,564 |

## 4. Property, plant and equipment

| | As at February 28, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | | Cost | | Accumulated depreciation | | Net book value |
| Land | $ | 544,163 | $ | - | $ | 544,163 |
| Buildings | | 11,634,385 | | 714,332 | | 10,920,053 |
| Leasehold improvements | | 1,506,976 | | 314,285 | | 1,192,691 |
| Production equipment | | 16,778,886 | | 3,856,063 | | 12,922,823 |
| Rolling stock | | 47,441 | | 38,420 | | 9,021 |
| Furniture and equipment | | 236,755 | | 41,083 | | 195,672 |
| Computer equipment | | 637,720 | | 192,476 | | 445,244 |
| Furniture and equipment under capital leases | | 43,179 | | 43,179 | | - |
| | $ | 31,429,505 | $ | 5,199,838 | $ | 26,229,667 |

| | As at May 31, 2008 (audited) | | | | | |
|---|---|---|---|---|---|---|
| | | Cost | | Accumulated depreciation | | Net book value |
| Land | $ | 534,380 | $ | - | $ | 534,380 |
| Buildings | | 4,497,408 | | 398,714 | | 4,098,694 |
| Leasehold improvements | | 1,355,026 | | 252,007 | | 1,103,019 |
| Production equipment | | 8,567,120 | | 2,781,503 | | 5,785,617 |
| Rolling stock | | 47,441 | | 33,820 | | 13,621 |
| Furniture and equipment | | 107,336 | | 24,936 | | 82,400 |
| Computer equipment | | 402,381 | | 104,674 | | 297,707 |
| Construction project | | 13,430,327 | | - | | 13,430,327 |
| Less: Grants and Government assistance | | (4,125,371) | | - | | (4,125,371) |
| Furniture and equipment under capital leases | | 43,179 | | 42,684 | | 495 |
| | $ | 24,859,227 | $ | 3,638,338 | $ | 21,220,889 |

(in Canadian dollars)

## 5. Share Capital

**Authorized**

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

An unlimited number of 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** | | |
| Outstanding as at May 31, 2008 | 45,500,000 | $81,788,694 |
| Issued on exercises of options | 10,825 | 49,895 |
| Outstanding as at February 28, 2009 | 45,510,825 | $81,838,589 |

**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 three-month period ended February 28, 2009 none were repurchased.

**Stock Option Plan**

In the three-month period ended February 28, 2009, 10,825 options were exercised under the Stock Option Plan. An amount of $17,420 from these options has been reclassified from contributed surplus to share capital, and a cash consideration of $32,475, for a total amount of $49,895.

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 nine-month period ended February 28, 2009 the Company granted 466,430 options (1,042,200 on December 20, 2007) at a 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.

(in Canadian dollars)

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 |

| | Nine months | | Nine months | |
|---|---|---|---|---|
| | 2009 | | 2008 | |
| | Stock Option | Weighted average exercice price | Stock Option | Weighted average exercice price |
| Beginning of period | 1,032,500 | $3.00 | 10,750 | $0.26 |
| Granted | 466,430 | $5.42 | 1,042,200 | $3.00 |
| Cancelled | (27,575) | $3.00 | - | - |
| Exerciced | (10,825) | $3.00 | (10,750) | $0.26 |
| End of period | 1,460,530 | $3.77 | 1,042,200 | $3.00 |

Stock-based compensation cost is allocated as follows:

| | Three months | | Nine months | |
|---|---|---|---|---|
| | February 28,2009 | February 29,2008 | February 28,2009 | February 29,2008 |
| Cost of goods sold | $ 114,336 | $ 41,467 | $ 173,144 | $ 43,364 |
| Selling and administrative expenses | 9,202 | 46,070 | 197,667 | 47,967 |
| Research and development expenses | 11,838 | 22,768 | 43,052 | 23,905 |
| | $ 135,376 | $ 110,305 | $ 413,863 | $ 115,236 |

## 6. Contributed surplus

| | Three months | | Nine months | |
|---|---|---|---|---|
| | February 28,2009 | February 29,2008 | February 28,2009 | February 29,2008 |
| Opening balance | $ 520,623 | $ - | $ 242,136 | $ 81,782 |
| Stock based compensation expense | 135,376 | 110,305 | 413,863 | 115,236 |
| Options exercised | (17,420) | (4,931) | (17,420) | (91,644) |
| Closing balance | $ 638,579 | $ 105,374 | $ 638,579 | $ 105,374 |

(in Canadian dollars)

## 7. Net earnings per share

| | Three months | | Nine months | |
|---|---|---|---|---|
| | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 |
| **Numerator** | | | | |
| Net earnings | $ 5,103,971 | $ 2,268,712 | $ 15,248,093 | $ 4,587,516 |
| Interest on notes payable, net of income taxes | - | 922 | - | 9,459 |
| | $ 5,103,971 | $ 2,269,634 | $ 15,248,093 | $ 4,596,975 |
| **Denominator** | | | | |
| Weighted average number of common shares | 45,505,413 | 39,006,408 | 45,501,804 | 32,748,039 |
| **Effect of dilutive securities** | | | | |
| Stock options | 310,114 | - | 387,378 | - |
| Convertible notes | - | 989,628 | - | 1,847,156 |
| | 45,815,527 | 39,996,036 | 45,889,182 | 34,595,195 |
| **Earnings per share** | | | | |
| Basic | $ 0.11 | $ 0.06 | $ 0.34 | $ 0.14 |
| Diluted | $ 0.11 | $ 0.06 | $ 0.33 | $ 0.13 |

## 8. Accumulated other comprehensive income

| | Three months | | Nine months | |
|---|---|---|---|---|
| | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 |
| Opening balance | $ 269,456 | $ - | $ - | $ - |
| Translation from the temporal method to the current rate method a) | - | - | 232,419 | - |
| Unrealized foreign currency translation gain for the period | 347,736 | - | 384,773 | - |
| Closing balance | $ 617,192 | $ - | $ 617,192 | $ - |

a) 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 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.

(in Canadian dollars)

## 9. 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.

| | Three months | | Nine months | |
|---|---|---|---|---|
| | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 |
| Cost of sales | $ 9,309,927 | $ 3,904,679 | $ 24,613,624 | $ 10,841,082 |
| Depreciation of property, plant and equipment related to the transformation of inventories | 565,026 | 253,181 | 1,439,199 | 703,888 |
| Inventory amount charged to expense | $ 9,874,953 | $ 4,157,860 | $ 26,052,823 | $ 11,544,970 |

## 10. 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 customers**

The Company has a conservative approach with regard to the management of its cash and cash equivalents. The funds have to be allocated to 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.

(in Canadian dollars)

c) Three costumers represent approximately the following percentages of sales and accounts receivable:

| | Three months | | Nine months | |
|---|---|---|---|---|
| | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 |
| Percentage of sales | 85% | 83% | 84% | 80% |

| | As at February 28, 2009 | As at May 31, 2008 (audited) |
|---|---|---|
| Percentage of accounts receivable | 75% | 64% |

**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 February 28, 2009:

| | Carrying Amount | Contractual Cash Flows | 0 to 6 months | 6 to 12 months | 12 to 24 months | After 24 months |
|---|---|---|---|---|---|---|
| Bank loan | $ 616,111 | $ 616,111 | $ 616,111 | $ - | $ - | $ - |
| Accounts payable and accrued liabilities | 9,386,912 | 9,386,912 | 9,386,912 | - | - | - |
| Unrealized loss (gain) on derivative financial | 653,359 | 653,359 | 407,416 | 132,896 | 113,047 | - |
| Long-term debt | 4,697,815 | 5,420,762 | 348,102 | 346,503 | 655,521 | 4,070,636 |
| Other long-term liabilities | 48,371 | 48,371 | 48,371 | - | - | - |
| | $ 15,402,568 | $ 16,125,515 | $ 10,806,912 | $ 479,399 | $ 768,568 | $4,070,636 |

*Contractual cash flows include interest charges.*

The Company has the following credit facilities:

a) Loan in the amount of $4,625,370 ($4,997,107 as at May 31, 2008) maturing in June 2018, secured by a building.

b) 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 instalments, 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.

As at February 28, 2009, the amount of the first outstanding tranche was of $616,111 (382 963 Euros).

**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.

**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 Euros at an average conversion rate of 1.59. This foreign currency forward contract of 250,000 Euros per month will be effective from December 15, 2008 until May 14, 2010. For the three-month period ended February 28, 2009 the Company recorded a loss in the amount of $233,589 and $133,047 for the nine-month period in regards 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. During the quarter ended February 28, 2009 the Company recorded a loss in the amount of $209,235 and $749,547 for the nine-month period in regard to this foreign currency exchange contract.

c) 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 February 28, 2009, the Company had the following exposure on:

| | US $ | Euros |
|---|---|---|
| Financial assets and liabilities measured at amortized costs: | | |
| Cash | 643,990 | 898,339 |
| Accounts receivable | 2,438,981 | 62,334 |
| Receivable from the wholly-owned subsidiary | - | 957,467 |
| Accounts payable and accrued liabilities | (4,397,227) | (12,631) |
| Other long-term liabilities | (77,180) | - |
| Total exposure from above | (1,391,436) | 1,905,509 |

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

| | $ CAN/US | $ CAN/Euros |
|---|---|---|
| Exchange rate as at February 28,2009 | 1.2707 | 1.6088 |
| Impact on net earnings based on a fluctuation of five cents in the Canadian dollar exchange rate | $ 47,657 | $ 65,264 |

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.

(in Canadian dollars)

### 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.

## 11. Foreign exchange (gain) loss

| | Three months | | Nine months | |
|---|---|---|---|---|
| | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 |
| Foreign exchange (gain) loss | $ (345,898) | $ 60,766 | $ (1,565,211) | $ 77,561 |
| Realized (gain) loss on derivative financial instruments | 192,057 | - | (332,943) | - |
| Unrealized loss on derivative financial instruments | 250,767 | - | 632,379 | - |
| | $ 96,926 | $ 60,766 | $ (1,265,775) | $ 77,561 |

## 12. Financial expenses

| | Three months | | Nine months | |
|---|---|---|---|---|
| | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 |
| Interest and bank charges | $ 75,197 | $ 21,876 | $ 117,356 | $ 80,890 |
| Interest on long-term debt | 32,267 | 24,320 | 162,791 | 217,921 |
| Amortization of deferred expenses | 23,348 | 5,000 | 53,559 | 5,000 |
| | $ 130,812 | $ 51,196 | $ 333,706 | $ 303,811 |

## 13. 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.

The capital of the Company amounted to $107,865,553 and $91,553,930 as at February 28, 2009 and as at May 31, 2008, respectively. The increase reflects principally the net earnings and the effects of the fluctuation on the Euro on the net assets of our foreign subsidiary which are recorded in accumulated other comprehensive income.

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.

## 14. Subsequent events

**Financial instruments**

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 will be effective from April, 1, 2009 until February 28, 2011.

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.

## 15. Comparative figures

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