5N PLUS

Second Quarter Report

Three and
six-month periods
ended
November 30, 2009

This Management's Report of the operating results and the financial position is intended to assist readers in understanding 5N Plus Inc. ("the Company"), its business environment and future prospects. This Management's Report should be read while referring to the unaudited consolidated financial statements and the accompanying notes for the three and six-month periods ended November 30, 2009 and with the most recent audited consolidated financial statements and accompanying notes for the fiscal year ended May 31, 2009. Information contained herein includes any significant developments to January 12, 2010, the date on which the Management's Report was approved by the Company's board of directors. The financial information presented in this Management's Report is based on the Company's accounting policies that are in compliance with Canadian generally accepted accounting principles ("GAAP"). It also includes some figures that are not performance measures consistent with GAAP. Information regarding these non-GAAP financial measures is provided under the heading Non-GAAP Measures of this Management's Report. All amounts are expressed in Canadian dollars. Unless otherwise indicated, the terms "we", "us" and "our" as used herein refer to the Company together with its subsidiaries.

Notice Regarding Forward-Looking Statements

Certain statements in this Management's Report may be forward-looking within the meaning of securities legislation. Forward-looking 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. As a result, we cannot guarantee that any forward-looking statements will materialize. Forward-looking statements can generally be identified by the use of terms such as "may", "should", "would", "believe", "expect", or any terms of similar nature. Except as required under applicable securities legislation, management does not undertake to update these forward-looking statements as a result of new information, future events or other changes. In evaluating these statements, the reader should consider various factors, including the risks outlined under the heading Risks and Uncertainties in the 2009 Annual Report. The reader is warned against giving undue reliance on these forward-looking statements.

Corporate Overview and Business

5N Plus Inc. draws its name from the purity of its products, 99.999% (five nines or 5N) and more. We have our head office in Montreal, Québec, and we develop and produce high-purity metals and compounds for electronic applications and provide our customers with recycling solutions. We are an integrated producer with both primary and secondary refining capabilities. We focus on specialty metals such as tellurium, cadmium and selenium and on related compounds such as cadmium telluride ("CdTe") and cadmium sulphide ("CdS"). Our products are critical precursors in a number of electronic applications, including the rapidly-expanding solar (thin-film photovoltaic) market, for which we are a major supplier of CdTe and the radiation detector market.

Business Strategy

Our goal is to accelerate the growth of our cadmium, selenium and tellurium metals and compounds business in order to meet the increasing demand for these products, in particular in the photovoltaic and medical imaging markets. In doing so, our objective is to maintain our leading position in these rapidly-expanding markets and leverage our competitive strengths to diversify our product offering and enter into new electronic-materials market segments. To accomplish this, our highest-level strategy includes investments in both training and research and development, to develop advantages in terms of competencies, technology and costs. Increasing shareholder value remains a priority and we are well positioned to implement our growth strategy through organic growth and strategic acquisitions.

Highlights of the Second Quarter 2010

- Net earnings for the second quarter were of $3,217,748 ($0.07 per share), which represents a 45.2% decrease over net earnings of $5,875,610 ($0.13 per share) for the second quarter of the previous fiscal year. Sales for the second quarter were of $15,753,445 down by 13.1% over sales of $18,135,824 for the second quarter of the previous fiscal year. EBITDA[1] decreased by 41.6% for the second quarter to $5,141,408 down from $8,798,520 during the second quarter of the previous fiscal year.

- For the six-month period ended November 30, 2009, net earnings decreased by 37.5% to $6,232,356 ($0.14 per share) and sales by 1.1% to $31,806,665. This compares with net earnings of $9,970,000 ($0.22 per share) and sales of $32,165,699 for the same period of the previous fiscal year. EBITDA also decreased during the six-month period ended November 30, 2009 to $10,190,946 down by 31.2% from $14,821,344 for the corresponding period of the previous fiscal year.

- As at November 30, 2009 our backlog[1] of orders expected to translate into sales over the following twelve months stood at $53,268,296 which represents a 2.7% decrease over its level of $54,722,363 one year earlier.

To our Shareholders

We (TSX:VNP) report the results of our second quarter ended November 30, 2009 which continue to reflect a healthy demand for our solar grade products. We expect this trend to continue with new manufacturers entering the market and recent announcements of additional CdTe solar module manufacturing capacity. Our second quarter results were however also negatively impacted by the relatively strong showing of the Canadian dollar with respect to its US counterpart, which also reduced our backlog, and the fact that we began incurring significant research and development expenses related to ZT Plus, the partnership announced at the end of the first quarter with BSST/Amerigon. Markets for our other products continued to be challenging in the quarter but we expect this situation to correct itself and remain therefore optimistic for the future.

We continue to seek opportunities for expansion of our corporation through acquisitions and partnerships and announced after the end of the quarter that we had acquired Firebird Technologies Inc. ("Firebird"), a producer of pure metals and semiconductor products, as well as signed a memorandum of understanding with Teck Metals Ltd for the supply of strategic metals. This will form the basis of a new platform aimed at addressing the semiconductor wafer business as well as additional opportunities in the solar market including copper indium gallium selenide ("CIGS") and germanium. Combined with ZT Plus, we believe that this will provide us with significant additional growth opportunities.

I would like to thank our employees for another solid quarter despite challenging economic conditions and welcome Firebird and ZT Plus employees to our team. 5N Plus is now more than ever positioned to become one of the leading electronic materials company and intends to continue executing its growth plan through diversification of product offering and accretive acquisitions.

Jacques L'Ecuyer
President and Chief Executive Officer

[1] See Non-GAAP Measures

Selected Quarterly Financial Information

in thousands of dollars except per share amounts
(unaudited)

	FY2010		FY2009				FY2008	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	**15,753**	16,053	18,057	19,150	18,136	14,030	9,424	8,359
Gross profit[1]	**7,359**	7,618	8,497	9,840	9,230	7,632	5,616	4,454
EBITDA	**5,141**	5,050	8,576	8,012	8,799	6,023	3,917	3,180
Net earnings	**3,218**	3,015	5,708	5,190	5,876	4,094	2,703	2,153
Earnings per share								
Basic	**$ 0.07**	$ 0.07	$ 0.13	$ 0.11	$ 0.13	$ 0.09	$ 0.06	$ 0.06
Diluted	**$ 0.07**	$ 0.07	$ 0.12	$ 0.11	$ 0.13	$ 0.09	$ 0.06	$ 0.06
Backlog	**53,268**	56,964	52,224	52,024	54,722	53,647	30,174	29,300

Results of Operations

Introduction

Our sales are generated through the development and production of high-purity metals and compounds which are used in various electronic applications, including solar cells, radiation detectors, infrared optics and systems, thermoelectric and optical storage. We also provide recycling services to our customers where residues from their manufacturing operations are refined and converted back into a usable product. We have one reportable segment, namely refining and recycling of metals.

Our customer base includes manufacturers of thin-film solar cells, original equipment manufacturers (OEM), and Tier 1 and 2 suppliers which provide consumables, components or sub-assemblies. Our customers are located primarily in the United States, Europe, Israel and Asia. For the first six months ended November 30, 2009, one customer accounted for 83.5% of our sales.

Sales, Gross Profit, Net Earnings and Earnings per Share

	Three months ended November 30			Six months ended November 30		
	2009	2008	(Decrease)	**2009**	2008	(Decrease)
Sales	**$ 15,753,445**	$ 18,135,824	(13.1%)	**$ 31,806,665**	$ 32,165,699	(1.1%)
Gross profit	**$ 7,359,457**	$ 9,230,178	(20.3%)	**$ 14,977,811**	$ 16,862,002	(11.2%)
Gross profit ratio[1]	**46.7%**	50.9%		**47.1%**	52.4%	
Net earnings	**$ 3,217,748**	$ 5,875,610	(45.2%)	**6,232,356**	$ 9,970,000	(37.5%)
Earnings per share (basic)	**$ 0.07**	$ 0.13		**$ 0.14**	$ 0.22	

[1] See Non-GAAP Measures

Sales for the second quarter ended November 30, 2009 reached $15,753,445 down by 13.1% over sales of $18,135,824 for the corresponding period of the previous fiscal year. For the first six months of the fiscal year sales reached $31,806,665 representing a 1.1% decrease over sales of $32,165,699 for the corresponding period of previous fiscal year. The decrease in sales in the quarter when compared to the corresponding period of the previous fiscal year is primarily attributable to a decrease in sales of products aimed at non-solar applications and the impact of less favorable exchange rates. For the six-month period considered, sales remained relatively constant with the decrease in sales of products for non-solar applications being offset by an increase in sales of products for solar applications and a neutral impact of the exchange rates.

Sales into the solar market represented 85.2% of total sales in the second quarter and 87.5% for the six-month period ended November 30, 2009. This compares with 78.4% and 77.4% for the corresponding periods of the previous fiscal year. Overall, volumes of product sold for solar applications increased in both the quarter and the six-month period ended November 30, 2009 relative to those sold in the corresponding periods of the previous fiscal year, with the corresponding sales numbers being partially offset by a reduction in the average unit price.

Gross profit reached $7,359,457 in the second quarter and $14,977,811 for the six-month period ended November 30, 2009, corresponding to gross profit ratios of 46.7% and 47.1% respectively. This compares with a gross profit of $9,230,178 and $16,862,002 for the corresponding periods of the previous fiscal year and respective gross profit ratios of 50.9% and 52.4%. The decreases observed in gross profit and gross profit ratio in the quarter are mainly accounted for by the appreciation of the Canadian dollar in relation to the U.S. dollar which had a negative impact on the Company's sales of approximately $1,000,000, when compared to the corresponding period of the previous fiscal year, and a relative decrease in average selling unit price. For the six-month period considered, the decrease in average selling unit price also accounts for the gross profit and gross profit ratio decreases together with higher raw material costs, related to the reduction in the relative amounts of "tolling", combined with higher operating costs.

Net earnings for the second quarter ended November 30, 2009 were $3,217,748 ($0.07 per share) representing a 45.2% decrease over net earnings of $5,875,610 ($0.13 per share) for the second quarter of the previous fiscal year. Net earnings for the second quarter of the previous fiscal year included a realized foreign exchange gain of $525,000 related to the termination of a foreign currency forward contract and a net foreign exchange gain of $451,526 related to operations and derivative financial instruments. Other factors responsible for the decrease in net earnings in the quarter include a decrease in gross profit and an increase in administration and marketing expenses. For the six-month period ended November 30, 2009, net earnings decreased by 37.5% from $ 9,970,000 ($0.22 per share) to $6,232,356 ($0.14 per share). In addition to the aforementioned factors, net earnings were negatively impacted in the six-month period considered by acquisition-related charges for uncompleted acquisition projects and ZT Plus. Earnings per share for the current fiscal year are calculated based on a weighted average number of common shares outstanding of 45,554,974 for the second quarter and of 45,537,505 for the six-month period ended November 30, 2009. Earnings per share for the three and six-month periods of the previous fiscal year are calculated based on a weighted average number of common shares of 45,500,000.

During the last quarter of the fiscal year ended May 31, 2009 , the Company retroactively adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Section 3064 "Goodwill and Intangible Assets". As a result, all of the German facility start-up expenses which had previously been capitalized were expensed leading to the following changes in net earnings of the quarter ended November 30, 2008 as shown in the table below.

Restated net earnings

	Three months ended November 30, 2008	Six months ended November 30, 2008
Net earnings	$ 5,815,037	$ 10,144,122
Deferred start-up costs	(72,974)	(449,280)
Amortization of deferred start-up costs	157,103	207,444
Income taxes	(23,556)	67,714
Restated net earnings	$ 5,875,610	$ 9,970,000

Selling and Administrative and Research and Development Expenses

	Three months ended November 30		Six months ended November 30	
	2009	2008	**2009**	2008
Selling and Administrative expenses	**$ 1,478,763**	$ 1,075,795	**$ 3,772,633**	$ 2,263,062
Percentage of sales for the period	**9.4%**	5.9%	**11.9%**	7%
Research and Development expenses (net of tax credits)	**$ 768,234**	$ 259,415	**$ 1,144,106**	$ 484,627
Percentage of sales for the period	**4.9%**	1.4%	**3.6%**	1.5%

Selling and administrative expenses were $1,478,763 or 9.4% of sales for the second quarter and $3,772,633 or 11.9% of sales for the six months ended November 30, 2009. This compares with selling and administrative expenses of $1,075,795 and $2,263,062 for the corresponding periods of previous fiscal year representing respectively 5.9% and 7.0% of sales. The level of selling and administrative expenses in the quarter was impacted by various charges including severance expense, finder's fees, and other administrative expenses, and is thus considered higher than expected. The Company also incurred significant administrative expenses during the first quarter of fiscal year 2010, in support of its growth objectives resulting in a $1,165,000 acquisition-related charge for uncompleted acquisition projects and ZT Plus. Together with the charges incurred in the second quarter, these account for the higher than expected levels of selling and administrative expenses in the six-month period ended November 30, 2009.

Research and development ("R&D") expenses, net of tax credits reached $768,234 in the second quarter as we expanded our R&D efforts to develop products for new or existing applications, compared to $259,415 in the second quarter of the previous fiscal year. These current expenses represent 4.9% of sales compared to 1.4% in the second quarter of the previous fiscal year. For the six-month period ended November 30, 2009, R&D expenses, net of tax credits, reached $1,144,106 or 3.6% of sales which is higher than the expenses of $484,627 or 1.5% of sales incurred during the same period of previous fiscal year. Current levels of R&D are consistent with anticipated levels with the exception that $350,005 related to our new joint venture ZT Plus.

Reconciliation of EBITDA

	Three months ended November 30			Six months ended November 30		
	2009	2008	(Decrease)	**2009**	2008	(Decrease)
Net earnings	**$ 3,217,748**	$ 5,875,610	(45.2%)	**$ 6,232,356**	$ 9,970,000	(37.5%)
Add (deduct):						
Income taxes	**1,301,807**	2,588,156		**2,775,039**	4,467,527	
Financial expenses & Interest income	**(73,182)**	(241,928)		**(173,618)**	(566,217)	
Depreciation and amortization	**695,035**	576,682		**1,357,169**	950,034	
EBITDA	**$ 5,141,408**	$ 8,798,520	(41.6%)	**$ 10,190,946**	$ 14,821,344	(31.2%)

EBITDA decreased by 41.6% for the second quarter of fiscal year 2010 when compared with the corresponding period of the previous fiscal year reaching $5,141,408 down from $8,798,520. EBITDA for the six-month period ended November 30, 2009 decreased by 31.2% down from $14,821,344 for the six-month period ended November 30, 2008 to $10,190,946. EBITDA was negatively impacted in both of the periods considered by the lower net earnings resulting from lower gross profits, higher selling and administrative expenses and the fact that we incurred significant foreign exchange gains in the corresponding periods of the previous fiscal year.

Financial Expenses, Interest Income, Depreciation and amortization and Income Taxes

The combined financial expenses and interest income netted a gain of $73,182 for the second quarter of the current fiscal year and of $173,618 for the six-month period ended November 30, 2009. This compares with a gain of $241,928 for the second quarter of the previous fiscal year and $566,217 for the six-month period ended November 30, 2008. This is largely the result of the decrease in the interest rates offered by banks on our investment of funds raised during the initial public offering and the bought-deal equity financing.

Depreciation and amortization expenses for the quarter ended November 30, 2009 increased to $695,035 up from $576,682 for the second quarter of the previous fiscal year. For the six-month period ended November 30, 2009 depreciation and amortization expenses increased to $1,357,169 up from $950,034 in the corresponding period of the previous fiscal year. This follows the sizeable increase in our property, plant and equipment mainly related to our German facility and the fact that depreciation began only once it became operational in August 2008. The amortization of the intellectual property related to ZT Plus which started on September 1st, 2009 also accounted for the increase.

Income taxes were $1,301,807 for the second quarter ended November 30, 2009, compared with $2,588,156 for the second quarter of the previous fiscal year. These figures correspond to effective tax rates of 28.8% and 30.6% respectively. The effective income tax rate decrease is mainly due to the effect of tax planning efficiency. For the six-month period ended November 30, 2009 income taxes were $2,775,039 and the effective tax rate of 30.8%. This compares with income taxes of $4,467,527 and an effective income tax rate of 30.9% for the corresponding period of the previous fiscal year.

Liquidity and Capital Resources

	As at November 30 2009	As at May 31 2009
Working capital[1]	$ 93,882,406	$ 90,558,261
Current ratio[1]	8.5	9.5
Property, plant and equipment	$ 27,448,816	$ 25,823,473
Total assets	$ 138,374,159	$ 128,168,856
Total debt[1]	$ 4,272,864	$ 4,589,570
Shareholders' equity	$ 119,745,413	$ 112,368,764

Working Capital and Current Ratio

Working capital increased to $93,882,406 on November 30, 2009, up from $90,558,261 on May 31, 2009. The current ratio decreased from 9.5 to 8.5 mainly due to the increase in the accounts payable and accrued liabilities for $2,309,039 related to the unpaid acquisition expenses of ZT Plus.

Property, Plant and Equipment, intangible assets and other assets

We incurred $1,603,279 of capital expenditures during the quarter ended November 30, 2009 compared to $1,474,569 incurred during the second quarter of the previous fiscal year. The level of capital expenditures has increased mainly due to the additional investments made at both our German and Montreal facilities to increase production capacity and recycling capabilities. Capital expenditures for the six-month periods considered were of $2,909,154 compared to $5,419,436 for the corresponding period of the previous fiscal year. Capital expenditures were higher in the previous fiscal year as we finalized commissioning of our German facility.

Accounts payable and accrued liabilities

Accounts payable and accrued liabilities increased to $12,025,276 as at November 30, 2009, up from $6,791,675 on May 31, 2009 mainly due to the unpaid acquisition of ZT Plus for $2,309,039 and the day to day management of the working capital.

Reconciliation of capital expenditures and cash flows from investing activities

	Three months ended November 30		Six months ended November 30	
	2009	2008	**2009**	2008
Additions to property, plant and equipment intangible asset and other asset	**$ 1,603,279**	$ 1,474,569	**$ 2,909,154**	$ 5,419,436
Acquisition of a joint venture	**413,610**	-	**413,610**	-
Additions to property, plant and equipment, intangible assets and other assets not paid and included in accounts payable and accrued liabilities:				
Beginning of the period	**305,170**	742,414	**192,453**	1,715,915
End of the period	**(198,778)**	(1,098,010)	**(198,778)**	(1,098,010)
Cash flows from investing activities	**$ 2,123,281**	$ 1,118,973	**$ 3,316,439**	$ 6,037,341

[1] See Non-GAAP Measures

Total Debt and Deferred Revenue

Total debt decreased from $4,589,570 to $4,272,864 during the second quarter ended November 30, 2009 as we paid off our long-term debt. Deferred revenue is associated with a subsidy of 540 000 Euros provided to our German subsidiary 5N PV GmbH to promote employment in the city of Eisenhüttenstadt. During the quarter ended November 30, 2009, an amount of $45,882 was recognized as revenue.

Shareholders' Equity

Shareholders' equity was $119,745,413 or 86.5% of total assets on November 30, 2009. This compares with $112,368,764, or 87.7% of total assets on May 31, 2009 illustrating the negative impact of the inclusion of ZT Plus balance sheet partly offset by the contribution of the positive net earnings incurred during the current quarter and six-month period considered. Foreign exchange gains and losses arising from the translation of the foreign subsidiary's accounts into Canadian dollars are deferred and reported as accumulated other comprehensive income (loss) in the Consolidated Statements of Comprehensive Income as well as the effective portion of the variation of the fair value of the foreign exchange contracts.

Cash Flows

	Three months ended November 30		Six months ended November 30	
	2009	2008	2009	2008
Operating activities	**$ 6,371,220**	$ 9,722,092	**$ 7,717,817**	$ 5,887,023
Financing activities	**94,333**	1,730,328	**(30,655)**	1,087,042
Investing activities	**(2,123,281)**	(1,118,973)	**(3,316,439)**	(6,037,341)
Effect of changes in foreign currency exchange	**18,939**	14,768	**51,323**	14,768
Increase in cash and cash equivalents	**$ 4,361,211**	$ 10,348,215	**$ 4,422,046**	$ 951,492

Cash flow from operating activities generated $6,371,220 in the quarter ended November 30, 2009. This compares to cash flow from operating activities of $9,722,092 for the corresponding period of the previous fiscal year. This decrease is largely accounted by a decrease in net earnings. For the six-month period ended November 30, 2009, cash flow from operating activities generated $7,717,817 which compares to cash flow from operating activities of $5,887,023 for the corresponding period of the previous fiscal year. During the six-month period of the previous fiscal year, a significant increase of $10,384,604 in inventories decreased the cash flow from operating activities.

Financing activities generated $94,333 during the second quarter and consumed $30,655 in the six-month period considered reflecting primarily the cash flow from issuance of share capital following exercise of stock options partly offset by the repayment of scheduled installments on our long-term debt. This compares with a cash generation related to financing activities of $1,730,328 and $1,087,042 for the corresponding periods of the previous fiscal year as we increased our bank loan during the last fiscal year while continuing to pay back long term debt and other long term liabilities.

Cash consumed in investing activities increased to $2,123,281 during the second quarter down from $1,118,973 for the second quarter of the previous fiscal year. This increase is due to investments in property, plant and equipment of ZT Plus for $547,898 and the disbursement related to the acquisition of the joint venture. For the six-month period ended November 30, 2009 cash consumed in investing activities was $3,316,439 compared to $6,037,341 for the corresponding period of the previous fiscal year as we were investing in the construction of our German facility.

Our cash position increased by $4,361,211 in the second quarter and $4,422,046 for the six-month period ended November 30, 2009, reaching a level of $69,488,576 compared with a cash increase of $10,348,215 and $951,492 for the corresponding periods of the previous fiscal year. We are very confident that this amount of cash combined with the cash flow from our operations will be sufficient to fund our working capital and capital expenditure requirements, and enable us to pursue our growth plan including acquisition opportunities.

Share Capital

Authorized

The Company has an unlimited number of common shares, with no par value, participating, and entitling the holder to one vote per share.

The Company has an unlimited number of preferred shares which 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	As at November 30, 2009			As at May 31, 2009		
	Number		Amount	Number		Amount
Common shares						
Outstanding	**45,612,200**	**$**	**82,319,580**	45,520,225	$	81,881,914

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. As at November 30, 2009 no common shares were repurchased.

Stock Option Plan

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 three-month period ended November 30, 2009, the Company granted 12 500 options at a weighted average price of $6.16 per option (52,500 options at a weighted average price of $3.81 per option for the three-month period ended November 30, 2008). For the six-month period ended November 30, 2009, the Company granted 50,000 options at a weighted average price of $6.44 per option (67,500 at a weighted average price of $5.12 for the six-month period ended November 30, 2008) for a total of 1,239,985 granted options.

Under the stock option plan, a total of 3,321,235 common shares remained authorized for issuance as at November 30, 2009.

Order Backlog

The backlog of orders which are expected to translate into sales within the next 12 months was of $53,268,296 as at November 30, 2009 which is 2.7% lower than the corresponding backlog of $54,722,363 as at November 30, 2008. The appreciation of the Canadian dollar in relation to the U.S. dollar had a negative impact of approximately $7 million on the backlog when compared to the backlog as at November 30, 2008.

Accounting Policies

The accounting policies are in accordance with those used in the preparation of the audited consolidated financial statements as at May 31, 2009 with the exception of the new accounting policies listed below.

Intangible assets

Intangible assets are accounted for at cost and amortized on a straight-line basis over their estimated useful lives of 5 to 17 years.

Hedges

The Company uses foreign exchange contracts to manage its cash flow risks. The Company applies hedge accounting for foreign currency forward contracts designated as cash flow hedges. These derivatives are measured at fair value in the consolidated balance sheet. The effective portion of the variation of the fair value of these contracts is included in comprehensive income.

Joint Venture

On September 1, 2009, the Company has established a joint venture called ZT Plus with BSST, a subsidiary of Amerigon Incorporated. The Company has a 50% ownership interest in ZT Plus. This joint venture will develop and manufacture advanced, more efficient thermoelectric materials designed to enable the use of advance thermoelectric technology in a wide variety of heating and cooling and power generation applications for industrial, consumer, medical, electronics and automotive markets. The contribution of each partner in cash or in kind is expected to be US $5,500,000. ZT Plus is accounted for using the proportionate consolidation method.

Future changes in accounting policies

a) 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 and will provide updates as further progress is achieved and conclusions are reached.

b) 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 but early adoption is permitted. As of today, we have not evaluated the impact of these new standards.

Risk Factors

The Company is subject to a number of risk factors which may limit our ability to execute our strategy and achieve our long-term growth objectives. Management analyses these risks and implements strategies in order to minimize their impact on the Company's performance. The reader is referred to the Risk and Uncertainties section described in the 2009 Annual Report.

Disclosure Controls and Procedures

The Company's management is responsible for establishing and maintaining appropriate control systems, procedures and information systems, thereby ensuring that the information it discloses is reliable and complete. The Company applies financial information disclosure rules and takes the necessary actions to comply with new accounting standards once they come into force. The Company also applies the standards set by the capital markets regulatory authorities. No material changes were made to internal control over financial information during the three and six-month periods ended November 30, 2009 that could have a significant impact or that could have been reasonably believed to have a significant impact on internal control over financial reporting.

Internal Control over Financial Reporting

The Chief Executive Officer and the Chief Financial Officer are responsible for establishing and maintaining appropriate internal controls over financial reporting (ICFR) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP.

Non-GAAP Measures

In this Management's Report, the Company's management uses certain measures which are not in accordance with GAAP. Non-GAAP measures are useful supplemental information but may not have a standardized meaning according to GAAP. These non-GAAP measures include EBITDA, gross profit and gross profit ratio, working capital and current ratio and total debt.

EBITDA means earnings before financing costs, interest income, income taxes, depreciation and amortization and is presented on a consistent basis from period to period. We use EBITDA, because we believe it is a meaningful measure of the operating performance of our ongoing business without the effects of certain expenses. The definition of this non-GAAP measure used by the Company may differ from that used by other companies.

Gross profit is a financial measure equivalent to the sales excluding cost of sales. Gross profit ratio is displayed as a percentage of sales.

Working capital is a measure that shows us how much cash we have available for the growth of our Company. We use it as an indicator of our financial strength and liquidity. We calculate it by taking current assets and subtracting current liabilities.

Total debt is a measure we use to monitor how much debt we have and calculate it by taking our total long-term debt and including the current portion. We use it as an indicator of our overall indebtedness.

Backlog is also a non-GAAP measure that represents the expected value of orders we have received but have not yet executed and that are expected to translate into sales within the next 12 months.

Subsequent event

Business combination

On December 1, 2009, the Company acquired Firebird Technologies Inc. a manufacturer of compound semiconductor products and pure metals. Firebird's main products, which include indium antimonide wafers as well as pure metals such as antimony, indium and tin, are sold worldwide and used in a number of electronic and optical applications.

Comparative Figures

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

Additional Information

Our common shares trade on the Toronto Stock Exchange (TSX) under the ticker symbol "VNP". Additional information relating to the Company, including the Company's annual information form is available under the Company's profile on SEDAR at www.sedar.com.