

A copy of this amended and restated preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces and territories of Canada, but has not yet become final for the purpose of the sale of securities. Information contained in this amended and restated preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of the securities only in those jurisdictions where they may be lawfully offered for sale and, in such jurisdictions, only by persons permitted to sell such securities. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the “U.S. Securities Act”), or any state securities laws and may not be offered, sold or delivered in the United States unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration requirements is available. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of these securities within the United States. See “Plan of Distribution”.

AMENDED & RESTATED PRELIMINARY PROSPECTUS
(amending and restating the preliminary prospectus dated October 17, 2017)

Initial Public Offering
by way of Secondary Offering

November 9, 2017



Performance Materials

Neo Performance Materials Inc.

C\$300,000,000

● **Common Shares**

This prospectus (“**Prospectus**”) is being filed by Neo Performance Materials Inc. (the “**Company**”) to qualify the distribution (the “**Offering**”) of ● common shares of the Company (“**Common Shares**”, and the Common Shares offered under this Prospectus being the “**Offered Shares**”) at a price of C\$ ● per Offered Share (the “**Offering Price**”) for gross proceeds of approximately C\$ ● . It is anticipated that the Offering Price will be between C\$19.00 and C\$22.00 per Offered Share. This Offering consists of a secondary offering of an aggregate of ● Common Shares by OCM Neo Holdings (Cayman), L.P. (the “**Selling Shareholder**”). Based on the estimated price range, between 13,636,364 and 15,789,474 Offered Shares will be offered pursuant to the Offering.

Prior to the completion of the Offering, the Company and Neo Cayman Holdings Ltd. (“**Neo Cayman**”) intend to complete a Cayman Islands scheme of arrangement (the “**Arrangement**”) pursuant to which the Company would acquire all of the outstanding ordinary shares of Neo Cayman in exchange for an aggregate of 39,878,383 Common Shares, a portion of which constitute the Offered Shares. Following the completion of the Arrangement, Neo Cayman will be a wholly-owned subsidiary of the Company and the Company will carry on the business of Neo Cayman as such business was carried on immediately prior to the Arrangement. See “*Corporate Structure – The Arrangement*” and “*– Intercorporate Relationships*”.

The Company will not receive any proceeds from the Offered Shares sold by the Selling Shareholder. The Offered Shares are being offered pursuant to an underwriting agreement dated ● , 2017 (the “**Underwriting Agreement**”) among the Company, the Selling Shareholder and Scotia Capital Inc. (“**Scotia**”), RBC Dominion Securities Inc. (“**RBC**”, and together with Scotia, the “**Joint Bookrunners**”), and Cormark Securities Inc. (“**Cormark**”), as co-lead underwriter, and CIBC World Markets Inc., Barclays Capital Canada Inc., Canaccord Genuity Corp., GMP Securities, L.P., and Raymond James Ltd. (collectively, the “**Underwriters**”).

Offering Price: C\$ ● per Common Share

	Price to Public ⁽¹⁾	Underwriters’ Commission ⁽²⁾⁽³⁾	Net Proceeds to the Selling Shareholder ⁽⁴⁾
Per Offered Share	C\$ ●	C\$ ●	C\$ ●
Total Offering ⁽⁴⁾⁽⁵⁾⁽⁶⁾	C\$ ●	C\$ ●	C\$ ●

Notes:

- (1) The price of the Offered Shares was determined by negotiation among the Company, the Selling Shareholder and the Underwriters.
- (2) The Underwriters will receive a commission equal to ● % of the gross proceeds of the Offering (the “**Underwriters’ Commission**”), payable on the Closing Date in cash by the Selling Shareholder. This Prospectus qualifies the distribution of the Offered Shares and the Additional Shares (as defined below) issued upon exercise of the Over-Allotment Option (as defined below). See “*Plan of Distribution*”.
- (3) These figures do not include the Underwriters’ expenses that the Company has agreed to pay, including the reasonable fees and disbursements, plus applicable taxes, of legal counsel to the Underwriters associated with the Offering. See “*Plan of Distribution*” and “*Use of Proceeds*”.

Global Leader Involved in the Innovation, Development, Processing and Manufacturing of Rare Earth and Rare Metal-Based Engineered Functional Materials

Investment Highlights

neo
Performance Materials

- 1** Global Leader in Growing Specialty Markets
- 2** Growing End Markets with Exposure to Key Growth Trends
- 3** Unique Global Infrastructure Platform with State-of-the-Art R&D Capabilities
- 4** Longstanding Relationships with Leading Global Customer Base
- 5** Strong Profitability, Cash Flow and Financial Position
- 6** Proven Management Team with Exceptional Track Record

57 La Lanthanum 138.905	58 Ce Cerium 140.116	59 Pr Praseodymium 140.908	60 Nd Neodymium 144.243	61 Pm Promethium 144.913	62 Sm Samarium 150.35	63 Eu Europium 151.964	64 Gd Gadolinium 157.25	65 Tb Terbium 158.925	66 Dy Dysprosium 162.500	67 Ho Holmium 164.930	68 Er Erbium 167.259	69 Tm Thulium 168.934	70 Yb Ytterbium 173.055	71 Lu Lutetium 174.967
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Global Leader in Growing Specialty Markets

#1
GLOBAL MARKET LEADER
of powders for bonded and hot deformed magnets

Top 3
GLOBAL PRODUCER
for materials for auto catalysts

Strategic benefits from status as **ONLY LICENSED NON-CHINESE SEPARATOR OF RARE EARTH IN CHINA**

#1
GLOBAL PRODUCER
of GaCl₃ used in LEDs

Growing End Markets with Exposure to Key Growth Trends

<p>Electrification of Automobiles</p>	<p>Bonded Based Motor (~215 g / 0.5 lbs)</p>  <p>~40% lighter and smaller</p>	<p>Hybrid / Electric Vehicles</p>	
<p>Global Adoption of Increasingly Stringent Air and Water Emissions Standards</p>		<p>High Quality Auto Catalysts, Phosphate Removal from water</p>	
<p>Consumer Demand for Lighter, Smaller, Smarter Electronic Devices</p>		<p>Consumer Electronics</p>	
<p>Growth in Automation</p>		<p>Robotics, Autonomous Vehicles, Cloud Computing</p>	
<p>Rising Demand for Superalloys</p>		<p>Aerospace Applications</p>	

Key trends support growing demand for Neo's products

Unique Global Infrastructure with State-of-the-Art R&D Capabilities

Leading R&D Capabilities

Global Sales Force

Cost-Competitive Manufacturing



Strong Profitability, Cash Flow and Financial Position

- ✓ Dividend
- ✓ Strong Cash Position
- ✓ No Debt
- ✓ Scalability
- ✓ Low Capex
- ✓ Strong FCF Conversion
- ✓ Low Commodity Exposure

- (4) This amount represents the net proceeds to the Selling Shareholder after deducting the Underwriters' Commission. The Company has agreed to pay the estimated expenses of the Offering of C\$ ● .
- (5) The Selling Shareholder has granted to the Underwriters an option (the "Over-Allotment Option") to purchase up to an additional number of Common Shares representing 15% of the number of Offered Shares sold under the Offering (the "Additional Shares") at the Offering Price exercisable at the Underwriters' sole option and without obligation, in whole or in part, at any time up to 30 days after the closing of the Offering, to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the "Price to Public", "Underwriters' Commission" and "Net Proceeds to the Selling Shareholder" (assuming the Underwriters' Commission is paid in full) will be C\$ ● , C\$ ● and C\$ ● , respectively. This Prospectus qualifies the distribution of the Over-Allotment Option and the distribution of any Additional Shares pursuant to the exercise of the Over-Allotment Option. Unless the context otherwise requires, references herein to the "Offering" and "Offered Shares" also includes the Additional Shares. A purchaser who acquires Offered Shares forming part of the Underwriters' over-allocation position acquires those securities under this Prospectus, regardless of whether such over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or through secondary market purchases. See "Plan of Distribution".
- (6) Assuming no exercise of the Over-Allotment Option.

Underwriters' Position	Maximum Number of Common Shares		Exercise Period	Exercise Price
	Available			
Over-Allotment Option	● Additional Shares		Up to 30 days after the closing of the Offering	C\$ ● per Common Share

There is currently no market through which any of the securities of the Company may be sold and purchasers and holders thereof may not be able to resell any of the securities purchased under this Prospectus. This may affect the pricing of the securities in the secondary market, the transparency and availability of trading prices, the liquidity of securities and the extent of issuer regulation among other applicable matters. See "Risk Factors". Closing of the Offering is conditional upon the Common Shares being approved for listing on the Toronto Stock Exchange (the "TSX"). See "Plan of Distribution".

The Underwriters, as principals, conditionally offer the Offered Shares, subject to prior sale, if, as and when sold by the Selling Shareholder and accepted by the Underwriters in accordance with the terms and conditions contained in the Underwriting Agreement, and subject to the approval of certain legal matters on behalf of the Company by Fogler, Rubinoff LLP and the Underwriters by Stikeman Elliott LLP. **The Underwriters may offer the Offered Shares at a lower price than stated above. See "Plan of Distribution."**

Subject to applicable laws and in connection with the Offering, the Underwriters may over-allot or effect transactions intended to stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time. See "Plan of Distribution."

Subscriptions will be received by the Underwriters subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that the closing of the Offering will take place on or about ● , 2017 or on such other date as the Company and the Underwriters may agree (the "Closing Date"). The Underwriters are obligated to take up and pay for all of the Offered Shares offered hereby (other than the Additional Shares issuable on exercise of the Over-Allotment Option) if any of those Offered Shares are purchased under the Underwriting Agreement. The Offered Shares offered hereby are to be taken up by the Underwriters, if at all, on or before a date not later than 42 days after the date of the receipt for the final Prospectus relating to the Offering. See "Plan of Distribution".

Global certificates or an instant deposit through the non-certificated inventory system representing the Offered Shares will be issued and deposited with CDS Clearing and Depository Services Inc. ("CDS"). A subscriber who purchases Offered Shares will receive only a customer confirmation from the registered dealer who is a CDS participant from or through whom Offered Shares are purchased. Physical certificates evidencing Offered Shares will not be issued except in limited circumstances and unless a request for a certificate is made to the Company.

An investment in the Company's securities should be considered highly speculative. There is no guarantee that an investment in the Company will earn any positive return in the short or long-term. An investment in the Company is appropriate only for investors who have the capacity to absorb a loss of some or all of their investment. There are certain risk factors associated with an investment in the Offered Shares. In reviewing this Prospectus, an investor should carefully consider the matters described under the heading "Risk Factors".

Investors should rely only on the information contained in this Prospectus. The Company has not authorized anyone to provide investors with different information. The Company is not offering the Offered Shares in any jurisdiction in which the Offering is not permitted. Investors should not assume that the information contained in this Prospectus is accurate as of any date other than the date of this Prospectus.

A number of directors and officers of the Company, namely Eric Noyrez, Nicholas Basso, Brook Hinchman, Aman Kumar, Edgar Lee, Emily Stephens, Kevin Morris, Jeff Hogan, Greg Kroll, Shannon Song and Frank Timmerman reside outside of Canada. In addition, the Selling Shareholder is organized outside of Canada. The foregoing directors and officers of the Company and the Selling Shareholder have appointed the Company at its registered and head office in Toronto, Ontario as agent for service of process in Canada. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if such person or company has appointed an agent for service of process.

Potential investors are advised to consult their own legal counsel and other professional advisors in order to assess income tax, legal and other aspects of this investment based upon their own personal circumstances.

The Company's registered and head office is located at 121 King Street West, Suite 1740, Toronto, Ontario M5H 3T9.

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GENERAL MATTERS

Unless otherwise noted or the context indicates otherwise, the “Company” refers to Neo Performance Materials Inc., “Neo Cayman” or “Neo” refers to Neo Cayman Holdings Ltd., and in each case, includes the businesses carried on by its direct and indirect subsidiaries.

Prior to the completion of the Offering, the Company and Neo Cayman intend, subject to the making of the Sanction Order (as defined below) by the Court (as defined below), to complete the Arrangement, pursuant to which, the Company would acquire all of the outstanding ordinary shares of Neo Cayman in exchange for an aggregate of 39,878,383 Common Shares, a portion of which constitute the Offered Shares. The effect of the Arrangement will be that Neo Cayman will become a wholly-owned subsidiary of the Company and the Company will carry on the business of Neo Cayman as such business was carried on immediately prior to the Arrangement. See “*Corporate Structure –The Arrangement*”.

Any data in the management’s discussion and analysis (“**MD&A**”) and the financial statements of Neo Cayman included in this Prospectus, including basic earnings per share and diluted earnings per share numbers, are based on historical data and do not reflect the Arrangement.

FORWARD-LOOKING INFORMATION

This Prospectus contains “forward-looking information” within the meaning of applicable securities laws in Canada. Forward-looking information may relate to future events or future performance of the Company. All statements other than statements of historical fact are forward-looking information. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. The Company believes the expectations reflected in such forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this Prospectus should not be unduly relied upon. This forward-looking information speaks only as of the date of this Prospectus.

In particular, this Prospectus contains forward-looking information pertaining to, but not limited to, the following:

- the Offering Price, size, the completion, expenses and timing of the closing of the Offering;
- the execution of agreements entered into in connection with the Offering by the Company and the Selling Shareholder;
- the Company’s expectations regarding certain of its future results and information, including, among other things, revenues, expenses, sales growth, capital expenditures, operations and use of future cash flow;
- the Company’s anticipated cash needs and its need for additional financing;
- expectations regarding industry trends, overall market growth rates and the Company’s future growth rates, plans and strategies;
- general business and economic conditions;
- new and emerging markets;
- competition and changes in the competitive landscape;
- projections of market prices and costs;
- expected revenues;
- ability to maintain profitability;
- the Company’s goal of creating shareholder value; and

- the plans, costs, and timing for future business prospects, including the costs and potential impact of complying with existing and proposed laws and regulations.

Such forward-looking information is based on a number of assumptions that may prove to be incorrect. In addition to any other assumptions identified in this Prospectus, assumptions have been made regarding, among other things:

- the ability of the Company to generate cash flow from operations and obtain necessary financing on acceptable terms;
- the ability of the Company to maintain relationships with current and new clients and partners;
- currency, exchange and interest rates;
- general economic, financial market, regulatory and political conditions in which the Company operates;
- the impact of increasing competition;
- the continuity of existing business relationships;
- anticipated and unanticipated costs;
- the ability of the Company and its partners to obtain and retain qualified staff and services in a timely and cost effective manner;
- the ability of the Company to enter into contracts with target companies;
- the Company's ability to maintain adequate internal control over financial reporting and disclosure controls and procedures;
- the ability to complete announced transactions; and
- the ability to obtain all necessary regulatory approvals.

Actual results could differ materially from those anticipated in such forward-looking information as a result of the risk factors set forth below and elsewhere in this Prospectus, including, but not limited to, risk factors relating to:

- there being no public market for the securities of the Company;
- volatility of the price of the Common Shares;
- the dividend policy of the Company;
- financial reporting and other public company requirements;
- forward-looking information;
- significant shareholder(s) of the Company;
- future sales of Common Shares;
- dilution;
- quarterly operating results varying from quarter to quarter;
- board discretion;
- analyst reports;
- international operations;
- intellectual property protection;
- intellectual property litigation;
- currency risk;
- expiry of joint venture agreements;
- changes in China's regulation of the rare earths industry;
- customer dependence;

- general economic conditions;
- competition;
- uncertainty regarding Chinese withholding tax and indirect transfers of Chinese enterprises by non-Chinese residents;
- environmental liability exposure;
- supplies of raw materials;
- fluctuations in demand for, and prices of, rare earth products;
- product recalls;
- rapid technological change;
- changes in tax laws;
- risks of operations and insurance;
- additional financing requirements;
- inability to effectively manage Company growth;
- potential for incurring unexpected costs or liabilities as a result of acquisitions;
- dependence on good relations with employees;
- reliance on key personnel;
- information technology and cybersecurity; and
- the other factors discussed under “*Risk Factors*”.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Should one or more of these risks and uncertainties materialize, or should the Company’s estimates or underlying assumptions prove incorrect, actual results, performance or achievements may vary materially from those described in forward-looking statements. The Company cannot guarantee future results, levels of activity, performance, or achievements. Moreover, the Company does not assume responsibility for the outcome of the forward-looking information. Accordingly, readers are advised not to place undue reliance on forward-looking information.

The forward-looking statements contained in this Prospectus are expressly qualified by this cautionary statement. The Company does not undertake any obligation to publicly update or revise any forward-looking information except as expressly required by applicable securities laws.

IMPORTANT NOTICE ABOUT THE INFORMATION IN THIS PROSPECTUS

General Advisory

You should rely only on the information contained in this Prospectus. The Company, the Selling Shareholder and the Underwriters have not authorized anyone to provide you with different or additional information. The Company is not and the Underwriters are not making an offer of the Offered Shares in any jurisdiction where the offer is not permitted by law. If anyone provides you with any different or inconsistent information, you should not rely on it. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the front of this Prospectus.

Market and Industry Data

Unless otherwise indicated, information contained in this Prospectus concerning the industry and the markets in which the Company and Neo Cayman operate or seek to operate, including general expectations and market position, market opportunities and market share, is based on information from independent industry organizations and consultants, other third-party sources (including industry publications, surveys and forecasts), and management studies and estimates.

The Company believes that these sources are generally reliable, but the accuracy and completeness of this information is not guaranteed. The Company has not independently verified this information.

While the Company believes the market position, market opportunity and market share information included in this Prospectus is generally reliable, such information is inherently imprecise. In addition, projections, assumptions and estimates of the Company’s future performance and the future performance of the industry and markets in which it operates are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described under the headings “*Forward-Looking Information*” and “*Risk Factors*”.

ELIGIBILITY FOR INVESTMENT

In the opinion of Fogler, Rubinoff LLP, counsel for the Company, and Stikeman Elliott LLP, counsel for the Underwriters, based on the provisions of the *Income Tax Act* (Canada) and the regulations thereunder (the “**Tax Act**”) in force as of the date hereof, provided that the Common Shares are listed on a “designated stock exchange” as defined in the Tax Act (which currently includes the TSX), the Offered Shares will, on the date of issue, be qualified investments under the current provisions of the Tax Act for trusts governed by registered retirement savings plans (each a “**RRSP**”), registered education savings plans (each a “**RESP**”), registered retirement income funds (each a “**RRIF**”), registered disability savings plans (each a “**RDSP**”), deferred profit sharing plans and tax-free savings accounts (each a “**TFSA**”), all within the meaning of the Tax Act.

Notwithstanding the foregoing, if the Offered Shares held by a TFSA, RRSP or RRIF are “prohibited investments” for purposes of the Tax Act, the holder of the TFSA or the annuitant of the RRSP or RRIF will be subject to a penalty tax as set out in the Tax Act. The Offered Shares will be a “prohibited investment” if the holder of a TFSA or the annuitant of a RRSP or RRIF, as the case may be: (i) does not deal at arm’s length with the Company for purposes of the Tax Act; or (ii) has a “significant interest” (within the meaning of the Tax Act) in the Company. In addition, the Offered Shares will not be a “prohibited investment” if the Offered Shares are “excluded property”, as defined in the Tax Act, for a TFSA, RRSP or RRIF. Proposed amendments to the Tax Act released on September 8, 2017 expand the prohibited investment rules to RESPs and RDSPs. **Holders who intend to hold Offered Shares in a TFSA, RRSP, RRIF, RESP or RDSP should consult their own tax advisors in this regard.**

CURRENCY EXCHANGE RATES

The Company’s and Neo Cayman’s financial statements and financial information are presented in United States dollars. All references to “\$” or “U.S.\$” in this Prospectus, unless otherwise indicated, refer to United States dollars (or U.S. dollars) and Canadian dollars are referred to as “C\$”. The following table sets out the exchange rates for Canadian dollars per United States dollar in effect at the end of the following periods based on the Bank of Canada closing exchange rate.

	Year Ended December 31			Six Months Ended June 30
	2016	2015	2014	2017
Closing	1.3427	1.3840	1.1601	1.2977
High	1.4589	1.3990	1.1643	1.3743
Low	1.2544	1.1728	1.0614	1.2977
Average	1.3248	1.2787	1.1045	1.3343

On ● , 2017, the closing rate for United States dollars reported by the Bank of Canada was U.S.\$1.00 = C\$ ● (C\$1.00 = U.S.\$ ●).

NON-IFRS FINANCIAL MEASURES

This Prospectus makes reference to certain non-IFRS financial measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS financial measures by providing further understanding of Neo Cayman’s and its predecessor’s results of operations from management’s perspective. Neo Cayman’s definitions of non-IFRS measures used in this Prospectus

may not be the same as the definitions for such measures used by other companies in their reporting. Non-IFRS measures have limitations as analytical tools and should not be considered in isolation nor as a substitute for analysis of Neo Cayman's financial information reported under IFRS. Neo Cayman uses non-IFRS financial measures, including "Adjusted EBITDA", "Adjusted EBITDA Margin", "Adjusted Net Income or Loss", "Adjusted OIBDA", "Adjusted OIBDA Margin", "Cash Generated from Operating Activities excluding Reorganization activities", "EBITDA", "Free Cash Flow", "Free Cash Flow Conversion" and "OIBDA" to provide investors with supplemental measures of its baseline operating performance and to eliminate items that have less bearing on operating performance or operating conditions and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of issuers. The Company's management also uses non-IFRS financial measures in order to facilitate operating performance comparisons from period to period. See "*Management's Discussion and Analysis – Non-IFRS Measures*". The Company defines such financial measures as follows:

"**Adjusted EBITDA**" is defined as EBITDA before equity income (loss) and impairment of associates (net of income tax), other income (expenses), foreign exchange loss (gain), reorganization items, stock-based compensation, impairment of goodwill and other long-lived assets, acquired inventory fair value release and loss related to Molycorp's product;

"**Adjusted EBITDA Margin**" is defined as Adjusted EBITDA divided by revenue;

"**Adjusted Net Income or Loss**" is defined as net income or loss before reorganizational items, foreign exchange loss (gain), stock-based compensation, acquired inventory fair value release, tax impact of above items and adjustment to deferred tax asset;

"**Adjusted OIBDA**" is defined as OIBDA before stock-based compensation, impairment of goodwill and other long-lived assets, acquired inventory fair value release and loss related to Molycorp's product;

"**Adjusted OIBDA Margin**" is defined as Adjusted OIBDA divided by revenue;

"**Cash Generated from Operating Activities excluding Reorganization activities**" is defined as cash generated from operating activities before cash outflows associated with reorganization activities;

"**EBITDA**" is defined as net income (loss) before finance costs, net, income tax (expense) benefit, depreciation and amortization included in cost of sales and depreciation and amortization;

"**Free Cash Flow**" is defined as Adjusted EBITDA less capital expenditures;

"**Free Cash Flow Conversion**" is defined as Free Cash Flow divided by Adjusted EBITDA; and

"**OIBDA**" is defined as operating income before depreciation, amortization and accretion.

Neo uses references to Adjusted OIBDA and Adjusted EBITDA interchangeably as the use of adjustments in each measure provides the same calculated outcome of operating performance. Management believes that the use of these adjustments (as defined in Adjusted EBITDA and Adjusted OIBDA) provides a more consistent measure of the underlying operating performance, with comparability among periods that investors may find useful. The exclusion of certain adjustments does not imply that they are non-recurring.

MARKETING MATERIALS

A "template" version of the following "marketing materials" (as each such term is defined in National Instrument 41-101 – *General Prospectus Requirements* ("NI 41-101")) for the Offering filed with the securities commission or similar regulatory authority in each of the provinces and territories of Canada are specifically incorporated by reference into this Prospectus:

1. the investor presentation filed on SEDAR on November 9, 2017; and
2. the term sheet filed on SEDAR on November 9, 2017.

The documents referred to above are available under the Company's SEDAR profile at www.sedar.com.

GLOSSARY OF TERMS

“**4N**” means purity of 99.99%;

“**6N**” means purity of 99.9999%;

“**8N**” means purity of 99.999999%;

“**ABS**” means anti-lock brake system;

“**Additional Shares**” has the meaning given to it on the face page of this Prospectus;

“**AI**” means artificial intelligence;

“**Arrangement**” means the Cayman Islands scheme of arrangement involving Neo Cayman, the shareholders of Neo Cayman and the Company pursuant to section 86 of the Cayman Islands *Companies Law (2016 Revision)* and which is the subject of proceedings before the Court with FSD Cause No. 190 of 2017 (NSJ) pursuant to which the Company would acquire all of the outstanding ordinary shares of Neo Cayman in exchange for an aggregate of 39,878,383 Common Shares and following which Neo Cayman will be a wholly-owned subsidiary of the Company and the Company will carry on the business of Neo Cayman as such business was carried on immediately prior to the Arrangement;

“**ASP (U.S.\$/kg)**” means average selling price, expressed as a U.S.\$ per kilogram price;

“**auto catalyst**” means automotive emission-control catalyst;

“**Board**” means the board of directors of the Company, as constituted from time to time;

“**bps**” means basis points;

“**CAGR**” means compound annual growth rate;

“**catalyst**” means a substance that increases the rate of a chemical reaction without being consumed itself;

“**CDS**” means CDS Clearing and Depository Services Inc.;

“**Ce**” means cerium, a rare earth element;

“**Chapter 11 Cases**” has the meaning given to it in “*Management’s Discussion and Analysis – Basis of Presentation*”;

“**China**” means the People’s Republic of China;

“**Closing Date**” means • , 2017 or such other date as the Underwriters and the Company shall mutually agree to close the Offering;

“**C&O**” means the Chemicals & Oxides segment of Neo’s business;

“**CO**” or “**Colorado**” means the state of Colorado, U.S.;

“**Common Shares**” means common shares in the capital of the Company;

“**Company**” means Neo Performance Materials Inc., a corporation incorporated under the OBCA;

“**Company Options**” means the stock options of the Company issued pursuant to the Stock Option Plan and includes stock options issued by Neo Cayman prior to the adoption of the Stock Option Plan that have become subject to the Stock Option Plan following its adoption by the Board;

“**Computershare**” means Computershare Trust Company of Canada, the Company’s transfer agent and registrar for the Common Shares;

“**Convening Hearing**” means the hearing of the Court in respect of the Arrangement at which the Court made orders, declarations and directions regarding, among other things, the convening and holding of the Neo Cayman Meeting;

“**Court**” means the Grand Court of the Cayman Islands;

“**Dy**” means dysprosium, a rare earth element;

“**Effective Date**” means the date the applicable securities commissions issue a final receipt for the Prospectus;

“**EGR**” means exhaust gas recirculation;

“**EICC**” means the Electronic Industry Citizenship Coalition;

“**EPS**” in the context of the section entitled “*Industry*” and “*Description of the Business*”, means electric power steering, and in the context of the section entitled “*Management’s Discussion and Analysis*”, means earnings per share;

“**Er**” means erbium, a rare earth element;

“**Eu**” means europium, a rare earth element;

“**E.U.**” means the European Union;

“**EV**” means electric vehicles;

“**FCC**” means fluid catalytic cracking;

“**Ga**” means gallium;

“**GaCl₃**” means gallium trichloride;

“**Ga₂O₃**” means gallium oxide;

“**Gd**” means gadolinium, a rare earth element;

“**HDD**” means hard disk drive;

“**HEV**” means hybrid electric vehicles;

“**Hf**” means hafnium, a rare earth element;

“**Ho**” means holmium, a rare earth element;

“**HREC**” means heavy rare earth concentrate;

“**HREE**” means heavy rare earth element;

“**IASB**” means the International Accounting Standards Board;

“**ICE**” means internal combustion engine;

“**IFRS**” means the international financial reporting standards as issued by the IASB;

“**In**” means indium;

“**IN**” or “**Indiana**” means the state of Indiana, U.S.;

“**InCl₃**” means indium trichloride;

“**ISO**” means the International Organization for Standardization, a voluntary, non-treaty federation of standards setting bodies of some 130 countries, which promotes development of standardization and related activities to facilitate international trade in goods and services;

“**IT**” means information technology;

“**JAMR**” means Jiangyin Jia Hua Advanced Materials Resources Co., Ltd., a joint venture entity indirectly owned by Neo Cayman;

“**La**” means lanthanum, a rare earth element;

“**LCD**” means liquid crystal display;

“**LDV**” means light-duty vehicle;

“**LED**” means light-emitting diode;

“**LREC**” means light rare earth concentrate;

“**LTM**” means last twelve months ended June 30, 2017;

“**Lu**” means lutetium, a rare earth element;

“**Magnequench**” means the Magnequench segment of Neo’s business;

“**Magnequench Powders**” means magnetic powders produced by Magnequench;

“**MD&A**” means management’s discussion and analysis of financial results;

“**MLCC**” means multi-layer ceramic capacitor;

“**Molycorp**” means Molycorp, Inc.;

“**Molycorp Acquisition**” means the acquisition of NEM by Molycorp by way of plan of arrangement, which became effective on June 11, 2012;

“**MRI**” means magnetic resonance imaging;

“**mT**” or “**tonnes**” means metric tonnes;

“**n.a.**” means not applicable;

“**Nb**” means niobium;

“**Nd**” means neodymium, a rare earth element;

“**NdFeB**” means neodymium-iron-boron;

“**NEDC**” means new European driving cycle;

“**NEM**” means Neo Material Technologies Inc., the predecessor entity to Neo Cayman, which was acquired by Molycorp in the Molycorp Acquisition;

“**Neo Cayman**” or “**Neo**” means Neo Cayman Holdings Ltd., a company organized under the laws of the Cayman Islands, and includes the businesses carried on by its direct and indirect subsidiaries;

“**Neo Cayman Meeting**” means the meeting of the shareholders of Neo Cayman convened at the direction of the Court and held on November 8, 2017 to consider and, if thought fit, approve the Arrangement;

“**Neo C&O**” means Neo Chemicals and Oxides, LLC, an indirect subsidiary of Neo Cayman;

“**Neo C&O Europe**” means Neo Chemicals & Oxides (Europe) Ltd. (formerly Molycorp Chemicals & Oxides (Europe) Ltd.), an indirect subsidiary of Neo Cayman;

“**Neo ULC**” means Neo Performance Materials ULC (formerly Molycorp Minerals Canada ULC), an indirect subsidiary of Neo Cayman;

“**n.m.**” means not meaningful;

“**NORM**” means naturally occurring radioactive materials;

“**NPM Singapore**” means Neo Performance Materials (Singapore) Pte. Ltd., an indirect subsidiary of Neo Cayman;

“**Oaktree**” means, collectively, the Selling Shareholder and its affiliates that previously made investments in Molycorp prior to the Reorganization;

“**OBCA**” means the *Business Corporations Act* (Ontario), as amended from time to time;

“**Offered Shares**” has the meaning given to it on the face page of this Prospectus;

“**Offering**” has the meaning given to it on the face page of this Prospectus;

“**Offering Price**” means C\$ ● per Offered Share;

“**OLED**” means organic light-emitting diode;

“**OK**” or “**Oklahoma**” means the state of Oklahoma, U.S.;

“**ON**” or “**Ontario**” means the province of Ontario, Canada;

“**Over-Allotment Option**” has the meaning given to it on the face page of this Prospectus;

“**PGM**” means platinum group metals, being platinum, palladium and rhodium;

“**Pr**” means praseodymium, a rare earth element;

“**Predecessor**” means the downstream business operations of Molycorp denominated Neo Performance Materials Operations;

“**Preferred Shares**” means preferred shares of the Company, issuable in series;

“**Prospectus**” means this prospectus and any appendices, schedules or attachments hereto;

“**Rare Metals**” means the Rare Metals segment of Neo’s business;

“**R&D**” means research and development;

“**Re**” means rhenium, a rare earth element;

“**REE**” means a rare earth element;

“**REO**” means rare earth oxide and is the standard form and unit of measurement of rare earths; it is an indication of the amount of rare earth contained in a material; and is calculated by converting all rare earth value to their oxide equivalent and summing them;

“**Reorganization**” means the reorganization of the business of Molycorp under Chapter 11 of Title 11 of the United States Bankruptcy Code – see “*Corporate Structure – The Reorganization*”;

“**RMB**” means Renminbi, the currency of China;

“**ROCE**” means return on capital employed;

“**Roskill**” means Roskill Information Services Ltd., a leading U.K.-based independent metals and minerals research firm;

“**Sanction Order**” means the order of the Court sanctioning the Arrangement, which if the Court exercises its discretion to sanction the Arrangement, is expected to be dated November 16, 2017;

“**Sc**” means scandium, a rare earth element;

“**SCR**” means silicon controlled rectifier;

“**Selling Shareholder**” means OCM Neo Holdings (Cayman), L.P.;

“**Sm**” means samarium, a rare earth element;

“**SmCo**” means samarium-cobalt;

“**Stock Option Plan**” means the rolling stock option plan of the Company approved by the Board on October 13, 2017;

“**Successor**” means Neo Cayman;

“**Ta**” means tantalum;

“**Tb**” means terbium, a rare earth element;

“**tonne**” or “**mT**” means a metric tonne;

“**TSX**” means the Toronto Stock Exchange;

“**U.K.**” means the United Kingdom of England, Scotland, Wales and Northern Ireland;

“**Underwriters**” means collectively, Scotia Capital Inc., RBC Dominion Securities Inc., Cormark Securities Inc., CIBC World Markets Inc., Barclays Capital Canada Inc., Canaccord Genuity Corp., GMP Securities L.P. and Raymond James Ltd.;

“**Underwriters’ Commission**” means the commission of ● % of the aggregate gross proceeds from the sale of the Offered Shares pursuant to the Offering to be paid to the Underwriters by the Selling Shareholder on the Closing Date;

“**Underwriting Agreement**” means the underwriting agreement dated ● , 2017 among the Underwriters, the Selling Shareholder and the Company governing the terms and conditions of the Offering;

“**United States**” or “**U.S.**” means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;

“**U.S. Securities Act**” means the United States Securities Act of 1933, as amended;

“**UT**” or “**Utah**” means the state of Utah, U.S.;

“**Y**” means yttrium, a rare earth element;

“**Yb**” means ytterbium, a rare earth element;

“**ZAMR**” means Zibo Jiahua Advanced Materials Resources Co., Ltd., a joint venture entity indirectly owned by Neo Cayman; and

“**Zr**” means zirconium, a rare earth element.

SUMMARY

This summary highlights selected information contained elsewhere in this Prospectus and is qualified in its entirety by the more detailed information and financial statements included elsewhere in this Prospectus. It does not contain all of the information that may be important to you and your investment decision. You should carefully read this entire Prospectus, including the matters set forth under “Risk Factors”, “Management’s Discussion and Analysis” and the financial statements and related notes.

The Company

The Company was incorporated under the OBCA on September 12, 2017.

Prior to the completion of the Offering, the Company and Neo Cayman intend, subject to the making of the Sanction Order by the Court, to complete the Arrangement, whereby the Company would acquire all of the outstanding ordinary shares of Neo Cayman in exchange for an aggregate of 39,878,383 Common Shares, a portion of which constitute the Offered Shares. The effect of the Arrangement will be that Neo Cayman will become a wholly-owned subsidiary of the Company and the Company will carry on the business of Neo Cayman as such business was carried on immediately prior to the Arrangement. See “*Corporate Structure – The Arrangement*”.

Corporate History

Neo’s operations trace back to AMR Technologies Inc. (“**AMR**”), which began operating in China in 1994 after acquiring majority interests in two joint ventures in China (ZAMR and JAMR, see “*Corporate Structure – Intercorporate Relationships*”). AMR was listed on the TSX in 1995.

In 2005, AMR completed the acquisition of Magnequench, Inc. combining the rare earth processing business of AMR and the magnetic powder production businesses of Magnequench, Inc., which had been designing and manufacturing magnetic powder since 1985. In June 2006, AMR changed its name to Neo Material Technologies Inc. (“**NEM**”).

In 2012, NEM was acquired by Molycorp, Inc. (“**Molycorp**”) for \$1.3 billion (the “**Molycorp Acquisition**”). Following the Molycorp Acquisition, the NEM business continued to be operated substantially as an independent business as Molycorp’s management was focused on executing a \$1.7 billion project (primarily funded with debt) to expand and modernize its rare earth mine in Mountain Pass, California (“**Mountain Pass**”). In late 2009, China placed restrictions on the export of rare earth elements (“**REE**”) causing prices of REEs to increase significantly on the international market, which incentivized development of higher cost global reserves, including Mountain Pass. In December 2014, China eased its restrictions on exports of REEs and pricing deteriorated, rendering Mountain Pass mining operations uneconomic.

In June 2015, Molycorp, together with certain of its subsidiaries, filed a voluntary petition of reorganization under Chapter 11 of Title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court of the District of Delaware (the “**Reorganization**”). In July 2015, Oaktree provided debtor-in-possession financing to Molycorp. After filing for Chapter 11 bankruptcy protection, Molycorp suspended operations at the Mountain Pass mine in October 2015. NEM continued to grow under Molycorp’s ownership, with new automotive emission-control catalyst (“**auto catalyst**”) products, the launch of a water treatment phosphate removal business and development of MQU (a new proprietary magnetic powder formulation).

In the Reorganization process, Molycorp’s Mountain Pass mine and processing facility was separated from the businesses of NEM, so that the NEM business no longer had any connection to Molycorp’s Mountain Pass mine and facility. On August 31, 2016, pursuant to the terms of the Fourth Amended Plan of Reorganization, certain of Molycorp’s subsidiaries emerged from Chapter 11 protection, and \$1.7 billion of Molycorp’s debt (which included debt owed to Oaktree) was settled in exchange for equity of the reorganized business, and Molycorp was liquidated. The newly reorganized Neo business comprised essentially the original business of NEM (as it existed prior to the completion of the Molycorp Acquisition), with the addition of Molycorp’s Silmet facility located in Sillamäe, Estonia. The businesses of NEM are now organized under a number of direct and indirect subsidiaries held by Neo Cayman,

which is currently controlled by the Selling Shareholder. Neo Cayman emerged from the Reorganization with an improved capital structure and renewed focus on expanding its business. The NEM businesses consistently generated positive cash flow during the Reorganization process and Neo Cayman now benefits from a strong balance sheet with, as of June 30, 2017, approximately \$78.0 million of cash and no debt.

The Industry

Neo has established itself as a global leader in the innovation and manufacturing of rare earth- and rare metal-based functional materials, which are essential inputs to high technology, high growth, future-facing industries. Since 1994, Neo has leveraged its rare earth separation expertise to innovate and grow into a leading manufacturer of functional engineered materials for specialty end markets, thus establishing the #1 global market position with an estimated 70 to 75% market share in bonded and hot deformed magnetic powders, a top three global market position in auto catalysts, the #1 gallium trichloride (“**GaCl₃**”) producer for light-emitting diodes (“**LED**”) and growth opportunities into new end markets such as wastewater treatment.

REEs and rare metals are indispensable inputs for many applications given their unique physical and chemical properties which include magnetic, catalytic, luminescence, electrochemical, thermal stability and superconductivity. These unique properties enable REEs and rare metals to provide essential functionality for hundreds of existing and emerging technologies, including light weight and efficient micro motors containing permanent magnets, air and water emission-control catalysts, electronics, medical equipment, aerospace components and clean energy applications. The functionality provided by REEs and rare metals has become increasingly prevalent as greater electrification of automobiles, more stringent air and water emission standards, and as the need for energy efficiency, miniaturization, durability and thermal stability have increased in importance for customers and end users due to technological innovation and increasingly stringent environmental standards.

Permanent Rare Earth Magnet Industry

There are two commercially important classes of permanent magnets: ferrite (iron-based) and neodymium-iron-boron (“**NdFeB**”) (rare-earth based). According to Roskill Information Services Ltd.¹ (“**Roskill**”), a leading independent metals and minerals research firm, ferrite magnets accounted for 88% of 2016 global production with NdFeB and other permanent magnets accounting for 11% and 1%, respectively.

There are three primary types of NdFeB magnets: sintered, bonded and hot deformed. Sintered magnets are stronger relative to bonded magnets; however, bonded magnets are better suited for applications that require small or complex shapes due to their ability to be pressed and extruded without further processing. Neo is the #1 global market leader within the bonded and hot deformed magnetic powder industry with an estimated 70% to 75% market share.

NdFeB Magnet Growth

According to Roskill², global demand for rare earth oxides (“**REO**”) in permanent magnet applications is forecast to grow at an estimated 10.1% compound annual growth rate (“**CAGR**”) from 2016 to 2021. Growth of permanent magnets has come from the use of small size NdFeB magnet applications in motors, sensors and actuators for consumer electronics and automotive applications. In addition, increasing quantities of NdFeB magnets have been used in wind turbines and micro motors for new energy vehicles (i.e. hybrid electric and electric vehicles). As an industry leader in bonded and hot deformed magnetic powders, Neo is well-positioned to benefit from this industry growth.

In particular, electrification of automobiles has led to increased demand for smaller, more efficient micro motors using NdFeB magnets to reduce weight and improve efficiency. This is both true in developed markets, where certain luxury vehicles can have up to 100 micro motors, as well as in emerging markets, where cars are beginning to incorporate power seats, power doors, power windows, sensors and other features. The development of hybrid electric vehicles (“**HEV**”) and electric vehicles (“**EV**”) is also emerging as a key market trend as these vehicles tend to require significant numbers of micro motors and other rare earth content.

¹ Roskill Information Services Ltd., *Rare Earths: Global Industry, Markets and Outlook to 2026 (Sixteenth Edition, 2016)*.

² Roskill, *ibid*.

Catalyst Industry

Products engineered from REOs are used in the production of fluid catalytic cracking (“FCC”) catalysts for crude oil refining and in auto catalysts.

Management believes that it is a top three global producer of rare earth-based functional materials used in auto catalyst applications. These functional materials are highly specialized and vary from customer to customer, depending on their requirements. Developing auto catalyst applications requires close collaboration with customers and long lead times, providing existing producers with a competitive advantage. In some cases, these lead times can be over three years due to the testing and qualification processes required by customers. Neo is a qualified supplier to all of the leading manufacturers of auto catalysts who supply all of the leading global OEMs.

Complex Auto Catalyst Growth

Tightening air emission standards are a large key driver of growth in the industry. For example, both China and India are adopting European Union (“E.U.”) emission standards V and VI. These E.U. standards define the acceptable limits for exhaust emissions of new vehicles sold in the E.U. and European Economic Area (“EEA”) member states.

Stricter emission regulations, lower battery costs, widely available charging stations and increasing consumer acceptance are expected to drive strong momentum for the increased penetration of electrified vehicles (hybrid, plug-in, battery electric and fuel cell). However, it is important to note that a large portion of electric vehicles include hybrid electric vehicles, which utilize a combination of internal combustion engines (“ICE”) and batteries. According to Bloomberg New Energy Finance³ (“Bloomberg”), 92% of new vehicle sales will require ICEs (including HEVs) in 2025 and 57% of new vehicle sales will include ICEs (including HEVs) in 2035. This means that in 2035, approximately 65 million new vehicle sales will still include ICEs. As a result, it is expected that demand for auto catalysts will remain strong for the foreseeable future.

Umicore S.A.⁴ (“Umicore”), a leading materials technology and recycling company, highlights stricter government regulations as the key driver of global emission-control catalysts, leading to market growth for complex auto catalysts of a 7.8% CAGR from 2015 to 2020. The highest growth regions are expected to be emerging markets such as China (24.6% CAGR) and India (28.9% CAGR).

Rare Earth Separation Industry

REEs are comprised of certain chemical elements of the periodic table that share similar properties and are often found together in the same geological deposits. These elements are seldom found in high grade, discrete ore bodies and thus are often exploited as by-products rather than as the main product of a mine. REE deposits are found in many parts of the world but are predominantly located in China, which currently supplies approximately 87% of the global market according to Roskill⁵. Neo is the only non-Chinese manufacturer in China and focuses on separating specialty rare earth materials, specifically engineered for use by manufacturers of end products, including permanent magnets, catalysts, polishing, batteries, glass additives, metallurgy, ceramics and phosphors, among others.

Rare earth separation is a relatively small part of Neo’s business and provides valuable vertical integration benefits. Historically, Neo’s expertise in rare earth separation has acted as a launchpad for new uses and applications, such as Neo’s entry into the auto catalyst market, and more recently, through the development of wastewater treatment applications. Furthermore, it provides a degree of vertical integration for the manufacture of Neo’s high-value magnetic and catalyst powders.

According to Roskill⁵, global demand for separated REOs is forecast to grow at a 5.7% CAGR from 2016 to 2021 due primarily to increased demand for NdFeB permanent magnets and continued growth in the catalysts sector.

³ Bloomberg New Energy Finance, Electric Vehicle Outlook 2017 (July 2017).

⁴ Umicore, Capital Markets Day (September 2, 2015).

⁵ Roskill, *ibid.*

Rare Metals

Rare metals can provide functional benefits similar to rare earths, such as mechanical strength, resistance to thermal creep deformation, strong surface stability and resistance to corrosion or oxidation. Neo is able to leverage end use functionality and customer relationships across both REO and rare metal applications, and over time, depending on end use technological advancements, certain functional benefits may transition from reliance on REOs to reliance on rare metals, and vice versa. Rare metals typically occur naturally in low concentrations, and as such, are not mined directly but rather recovered as by-products primarily from copper and zinc mines. The term rare metals typically includes tantalum, niobium, gallium, hafnium, rhenium, indium, germanium, manganese, tellurium, lithium and cobalt.

Neo produces a variety of these rare metals through its Rare Metals segment, with a primary focus on high-purity tantalum, niobium, gallium and hafnium. Due primarily to their superconductivity and use as additives to steel and superalloys, demand for tantalum and niobium has increased in recent years, driven by the growth in consumer electronics, metal construction materials, aerospace applications and healthcare applications. Demand for high-purity gallium has been driven by the growing LED market where Neo is the #1 global producer of GaCl₃ and is one of only two major producers globally.

Industry Growth Trends Impacting Neo

Electrification of Automobiles

Improving technology in the automotive industry has led to increased demand for smaller, more efficient micro motors used in applications such as power steering, power windows, electronically-driven fuel and water pumps and power seats, as well as more visual components such as high-definition screens and LEDs, each of which require functional REE and/or rare metal materials. For vehicles that require a large number of motors per application, ferrite magnets become impractical due to their large size and relative inefficiency, leading to a substitution effect toward bonded and hot deformed magnets. In addition, both HEVs and EVs, which require traction motors and an increasing number of micro motors, rely on rare earth magnets for efficiency. In EVs, which do not use a drive belt at all, the motor relies on rare earth magnets for power generation.

Global Adoption of Increasingly Stringent Air and Water Emission Standards

An increasing number of governments are making commitments to the reduction of carbon emissions, which has led to an increase in demand for advanced, high quality auto catalysts. The largest markets for auto catalysts are North America, Europe and Japan, however, demand in China, India and the rest of the world is increasing due to expanding environmental standards. Increasingly stringent automotive exhaust emission standards, in turn, require the use of advanced REE materials.

Government regulations, specifically in North America and Europe, have become more stringent with respect to the allowable amount of phosphorus in wastewater. REE-based engineered materials for controlling phosphorus in wastewater treatment systems are gaining traction in municipal and industrial wastewater treatment centres in the United States where low phosphorus limits are required.

Consumer Demand for Lighter, Smaller, Smarter Electronic Devices

As consumers demand increasingly more efficient, smaller and lighter electronics (including handheld devices), the demand for smaller, more powerful NdFeB magnets as well as other rare earth inputs will increase. The use of rare earths in permanent magnets enables reductions in size, weight and increased energy efficiency relative to iron-based ferrite magnets, which are the most common permanent magnet material.

Growth in Automation

Management believes that the increased prevalence of artificial intelligence (“AI”) and automation (home, office, automotive and industrial) is expected to support long-term demand for innovative rare earth-based functional materials. This demand will be supported by NdFeB micro motors for robotics and other potential applications that

require automated movement, as well as increased demand for cloud computing and data storage solutions. Some examples include:

- **Robotics:** AI is now gradually expanding the domain of physical automation by helping with less routine tasks that involve some degree of dexterity, planning, sensing and interaction. In order to accomplish this, smaller micro motors using NdFeB magnets will be required.
- **Autonomous Vehicles:** AI will be used in a variety of functions in autonomous vehicles such as sensor fusion, computer vision, natural language processing and object recognition to enable fully autonomous driving. These functions will rely heavily on sensors and micro motors enabled by NdFeB magnets, thus continuing to drive demand of these magnets for use in automobiles.
- **Cloud Computing:** Hard disk drives (“HDD”), which use NdFeB magnets, remain the preferred form of data storage device for data centre providers due to their relatively lower cost and ability to facilitate data recovery.

Rising Demand for Superalloys

Superalloys are high performance alloys that exhibit excellent mechanical strength, resistance to thermal creep deformation, strong surface stability and resistance to corrosion or oxidation. As a result, superalloys are commonly used in aerospace applications.

According to the Boeing Company⁶ (“Boeing”), passenger travel growth in the global aviation industry had a 6.2% CAGR for the past five years. Demand for rare metals in aerospace applications is likely to increase at a faster rate than the industry as a whole, driven by the global effort to reduce carbon dioxide and energy usage. This has led to the development of new technologies that deliver weight reduction, decrease fuel consumption and reduce emissions. As a producer of pure metals and alloys for high performance jet engines, Neo is well positioned to capitalize on this trend.

The Business

Neo has established itself as a global leader involved in the innovation, development, processing and manufacturing of rare earth- and rare metal-based functional materials, which are essential inputs to high technology, high growth, future-facing industries. Neo works in close collaboration with its customers to engineer and develop new materials, which requires exacting chemical, physical and metallurgical processing to target specific morphology, crystal structure, chemical composition and purity to enhance functionality. Neo’s advanced processing and manufacturing facilities are strategically diversified across three continents and are able to produce some of the highest performance rare earth- and rare metal-based functional materials globally – meeting customers’ most challenging product specifications.

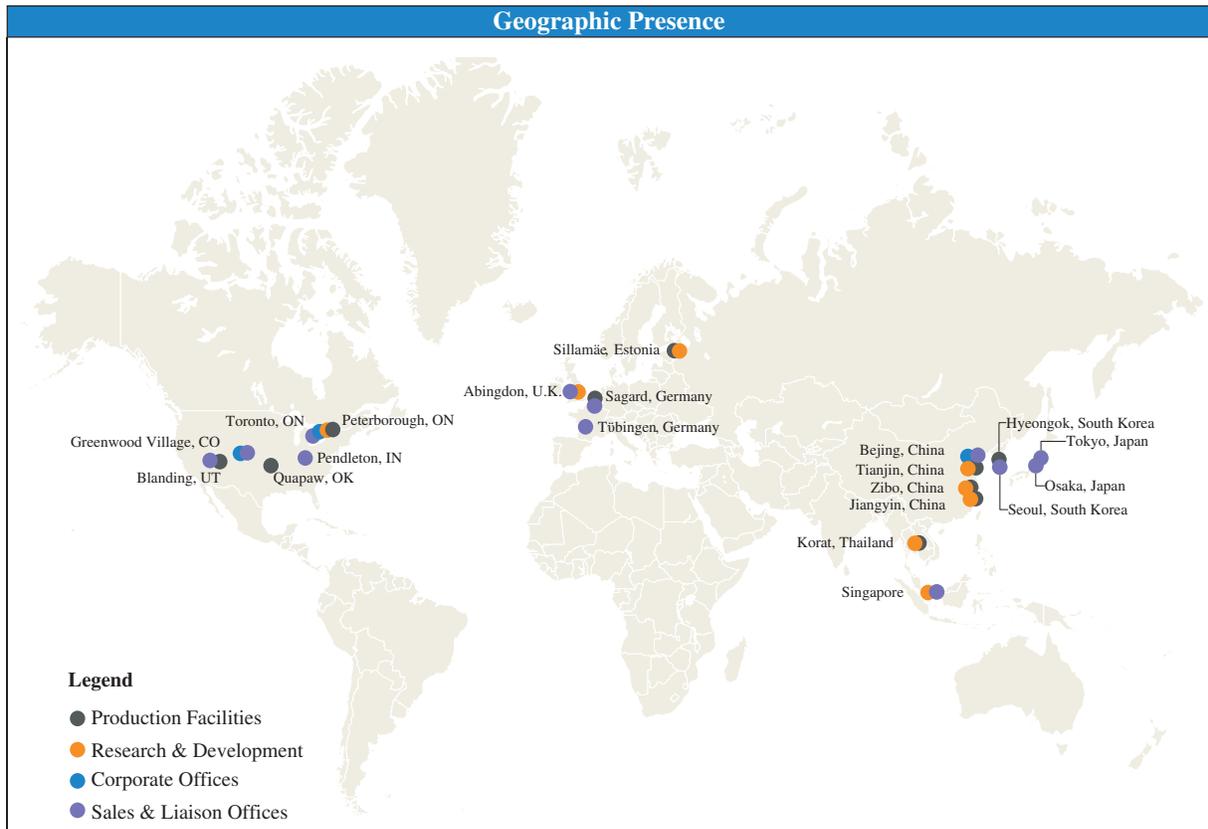
Neo’s unique technical expertise and strategic geographic presence has allowed Neo to be a leader in its key markets with a proven, consistent product offering. This, combined with long-term collaborative customer relationships, creates significant barriers to entry.

Innovation has also been a key driver for Neo’s business. As an industry leader, Neo invests significant resources to improve the efficiency of its processing operations and to research and develop new rare earth- and rare metal-based materials. Neo employs these advanced processes and technologies to drive new product development with globally competitive costs and margins.

Neo’s products are used in numerous end use applications, including micro motors, traction motors, auto catalysts, water emission-controls, healthcare (such as medical imaging), aerospace, clean energy technologies (such as HEVs and EVs), consumer electronics (such as smartphones and tablets), fibre optics, HDDs and a number of other applications.

⁶ Boeing, Current Market Outlook (2017-2036).

Neo has a global platform with manufacturing, research and development (“R&D”) and sales offices in China, South Korea, Thailand, Japan, Singapore, Germany, Estonia, Canada, U.K. and the U.S., which are strategically located in close proximity to customers and end-users.



Neo’s business is organized into three operating business segments (Magnequench, Chemicals & Oxides (“C&O”) and Rare Metals) as well as a corporate segment. Each segment is run on a standalone basis under the leadership of a business segment head. These segments are responsible for their own production, R&D, sales and marketing and raw materials procurement. The segments benefit from common ownership as result of Neo’s global platform, options for raw material sourcing and the opportunity to cross-sell to certain customers.

Neo Business Segment Overview



Corporate

Principal Activity	<ul style="list-style-type: none"> • Producer of rare earth magnetic powders for bonded and hot deformed fully dense NdFeB magnets 	<ul style="list-style-type: none"> • Separator and processor of rare earth concentrate into functional materials 	<ul style="list-style-type: none"> • Producer, reclaimer, refiner and marketer of high-value rare metals and their compounds 	<ul style="list-style-type: none"> • Finance, administration, IT, accounting and legal
Products	<ul style="list-style-type: none"> • Magnetic powders (Magnequench Powders) 	<ul style="list-style-type: none"> • Separated rare earths • Rare earth based engineered materials 	<ul style="list-style-type: none"> • Rare metals such as tantalum, niobium, gallium, hafnium, rhenium and indium 	
Applications	<ul style="list-style-type: none"> • Automotive motors • Traction motors • Micro motors • Sensors 	<ul style="list-style-type: none"> • Auto catalysts • Consumer electronics • Magnets • Wastewater treatment 	<ul style="list-style-type: none"> • Superalloys for jet engines • Medical imaging • Wireless technologies • LED lighting 	
Facilities	<ul style="list-style-type: none"> • Tianjin, China • Korat, Thailand 	<ul style="list-style-type: none"> • Zibo, China • Sillamäe, Estonia • Jiangyin, China 	<ul style="list-style-type: none"> • Sillamäe, Estonia • Hyeongok, South Korea • Sagard, Germany • Peterborough, ON Canada • Quawpaw, OK, U.S. • Blanding, UT, U.S. 	<ul style="list-style-type: none"> • Toronto head office • Regional corporate offices

Key Financials
(U.S.\$ millions)

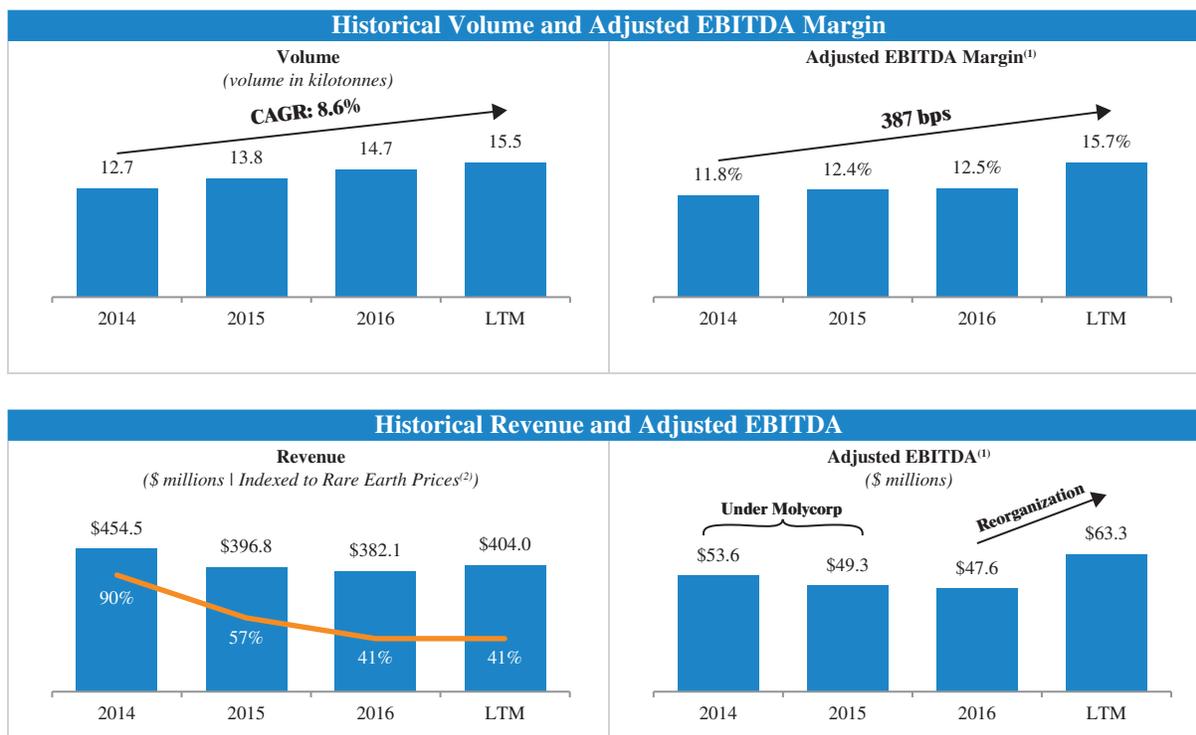
LTM revenue	\$171.5	\$170.1	\$74.5	(\$12.1) ⁽²⁾
% of total ⁽¹⁾	41%	41%	18%	—
LTM operating income (loss)	\$29.4	\$10.3	(\$3.7)	(\$23.2)
LTM operating margin	17.1%	6.0%	(5.0%)	n.m.
LTM Adjusted OIBDA ⁽³⁾	\$45.9	\$30.0	\$6.3	(\$18.8)
LTM Adjusted OIBDA Margin ⁽³⁾	26.7%	17.6%	8.4%	n.m.

Notes:

- (1) Percentages shown before inter-segment revenue eliminations.
- (2) Represents inter-segment revenue eliminations.
- (3) For the reconciliation of Adjusted OIBDA and Adjusted OIBDA Margin to operating income and operating margin, see “Selected Financial Information” and “Management’s Discussion and Analysis – Non-IFRS Financial Measures”.

Financial Summary

For the twelve month period ended June 30, 2017, Neo had \$404.0 million in revenue and \$63.3 million in Adjusted EBITDA, achieving an Adjusted EBITDA Margin of 15.7%. Neo has been able to increase its volumes each period since 2014 but realized a decrease in revenue in 2015 and 2016 due to a decrease in the underlying commodity price and average selling price. Despite the decline in prices, Neo has been able to grow its Adjusted EBITDA Margins over the same period, as Neo's pricing strategy allows Neo to pass through underlying commodity price fluctuations to its customers. As a result, Neo is able to maintain margins over the long-term, partially mitigating the risk of input price volatility.



(1) For the reconciliation of Adjusted EBITDA and Adjusted EBITDA Margin to net income, see "Selected Financial Information" and "Management's Discussion and Analysis – Non-IFRS Financial Measures".

(2) Average rare earth prices calculated monthly and indexed to 100% as of January 1, 2014.

Investment Highlights

Neo has established itself as a global leader in the development, processing and manufacturing of rare earth- and rare metal-based functional materials, specifically designed in collaboration with its customers. Neo has a unique combination of competitive advantages that are not easily replicated.

Global Leader in Growing Specialty Markets

Neo holds leading market positions in many of the key specialty markets it serves, including bonded magnetic powders, auto catalysts, rare earth separation and specialty alloys and rare metals.

- Bonded Magnetic Powders:** Neo is the leading global producer of high-performance rare earth magnetic powders used in NdFeB bonded magnets through its propriety technology related to the development, processing and manufacturing of Magnequench Powders. Neo has over 30 years of experience developing magnetic powders and utilizing industry-leading technology to deliver consistent, high quality, tailored products to meet its customers' demands. As an industry leader, with an estimated 70 to 75% market share, Neo serves as the market benchmark and acts as a pioneer in technology and quality.

- **Auto Catalysts:** Over the past two years, management believes that Neo has grown materially to be one of the top three suppliers to auto catalyst end markets. More stringent environmental regulation will increase demand for key REEs that are used in auto catalysts to reduce emissions. In addition, auto catalyst manufacturers are trying to reduce the proportion of higher cost platinum group materials (“PGM”) used in auto catalysts by using higher volumes or more efficient formulations of rare earths. Neo’s expertise in working with its customers to engineer these materials positions it well to capitalize on this growth. Neo is a qualified supplier to all the leading manufacturers of auto catalysts who supply all the leading OEMs. Being a qualified supplier incentivizes Neo’s customers to continue to source materials from Neo, as it is difficult to switch and requalify a new supplier.
- **Rare Earth Separation:** Neo is a pioneer in separating, processing, developing and manufacturing functional materials for a diverse range of applications. Examples of these specialized materials include products used for phosphate removal in wastewater treatment systems and components used in advanced electronics. Neo has a distinct competitive advantage as it is the only non-Chinese company with a license to separate REEs in China, where it has been operating since 1994. This vertical integration gives Neo local access to the majority of global rare earth supply, while also reducing overall costs. It also benefits from a strategic non-Chinese source of supply from Russia, which is processed at Neo’s facility in Estonia providing global scale and geographic diversity.
- **Specialty Alloys and Rare Metals:** Neo is a leading global producer of advanced functional materials made from rare metals for applications in jet engines (superalloys), medical imaging, wireless technologies, LED lighting, flat panel displays, solar panels and batteries, among others. For example, Neo is the #1 global producer of GaCl₃, where Neo is one of only two major producers globally. GaCl₃ is widely used in the compound semiconductor, LED and aerospace industries.

Growing End Markets with Exposure to Key Growth Trends

Neo is a critical player integrated within its customers’ product development cycles and global supply chains across diverse end markets, and is positioned to participate in several growth sectors driven by favourable trends. These trends include the electrification of automobiles, global adoption of increasingly stringent air and water emission standards, consumer demand for lighter, smaller, smarter electronic devices, growth in automation and rising demand for superalloys in aerospace.

Unique Global Infrastructure Platform with State of the Art R&D Capabilities

Neo’s global infrastructure, including its manufacturing and sales network, provide it with a unique competitive advantage in the industry. Neo’s engineering and manufacturing expertise, combined with best-in-class production facilities, are located in cost-competitive jurisdictions. Neo currently owns 10 production facilities in China, South Korea, Thailand, Germany, Estonia, Canada and the U.S. which are strategically located in close proximity to its customers and end markets.

Neo has a global sales force with 12 sales offices around the world, and employs some of the world’s leading experts in their respective fields, enabling Neo to provide the technical expertise required to fulfil its customers’ needs. In addition, Neo owns and operates eight dedicated R&D facilities across three continents, with two standalone R&D facilities in Singapore and Abingdon, U.K., and six co-located within Neo’s production facilities. These facilities work directly with customers and are an integral aspect of these customers’ product development cycles, working to create specialized materials customized to meet each of their unique requirements.

Longstanding Relationships with Leading Global Customer Base

Neo services a high-quality, market-leading, sophisticated customer base with whom it has nurtured longstanding relationships. This balanced customer base is well-diversified and includes large industrial businesses, consumer electronics manufacturers and chemical processing businesses, including Fortune 500 companies. A significant portion of Neo’s revenue comes from customers who have been with the Company for over 10 years. Neo has been able to maintain these longstanding relationships, even through the Molycorp bankruptcy, as it provides significant value to its customers by co-developing advanced, tailor-made materials based on their needs. Customers value Neo’s global

manufacturing platform as a key differentiator due to the ability to source materials from both inside and outside of China, further reducing supply risk and ensuring timely deliveries. Neo's top 15 customers accounted for approximately 67% of its total revenue in 2016. For example, longstanding customers include Chengdu Galaxy Magnets Co., Ltd., H.C. Starck Co. Ltd. ("**H.C. Starck**"), BASF SE ("**BASF**"), Daido Electronics Co. Ltd. ("**Daido Electronics**"), Johnson Matthey plc ("**Johnson Matthey**"), Panasonic Corporation ("**Panasonic**"), Samsung Group ("**Samsung**"), Umicore, AzkoNobel N.V. ("**AzkoNobel**"), Robert Bosch GmbH ("**Bosch**"), LG Electronics Inc. ("**LG**") and Koninklijke Philips N.V. ("**Philips**").

Strong Profitability, Cash Flow and Financial Position

- **Profitability:** Neo has a track record of consistent, profitable growth, supported by favourable industry trends and through dedication to quality and its ability to customize products to fit its customers' specific needs. Neo has successfully increased Adjusted EBITDA Margins by 387 bps from 2014 through June 30, 2017, partially mitigating its risk to commodity rare earth and rare metal price changes. Neo's global presence and integrated position in their customers' supply chain allow Neo to maintain its operating margins over the long-term. These strong margins are consistently achieved through a high proportion of variable costs (approximately 80% of costs of goods sold), combined with the ability to pass a significant portion of the fluctuations in raw material costs through to its customers. Furthermore, diversity of applications and customers protects Neo's market share and helps to insulate Neo from cyclical and counterparty risk. This gives Neo a competitive advantage and allows Neo to maintain strong and improving margins in a competitive market.
- **Cash Flow:** Neo generates strong cash flow with low maintenance capital expenditures leading to LTM Free Cash Flow Conversion of 86.9% as a result of its focus on specialized, higher-margin products. This, combined with a continued focus on cost reduction and productivity escalation, is driving incremental margin and cash flow improvements. Neo's current infrastructure has the ability to scale through modest incremental capital spending. As a result, Neo's total capital expenditure requirements are anticipated to be approximately \$8-15 million per year.
- **Financial Position:** Neo emerged from the Molycorp bankruptcy process in a strong financial position. Neo maintained positive cash flow generation throughout the process and as of June 30, 2017 had approximately \$78.0 million in cash on the balance sheet, no debt outstanding and an undrawn working capital facility of \$15.4 million to provide liquidity. Neo Cayman has declared a pre-Offering dividend of approximately \$25.0 million. Following the payment of such dividend, Neo's September 30, 2017 pro forma cash balance would have been approximately \$88.1 million.

Proven Management Team with Exceptional Track Record

Neo's senior management team is comprised of a number of industry veterans, with the knowledge, vision and expertise to deliver results. The majority of this management team was with Neo when it was a public company, before the Molycorp Acquisition. The management team is comprised of industry leaders with a combined 200+ years of experience. Management has developed strong, longstanding relationships with customers allowing them to provide insights into customers' operations. Over the course of their tenure, management has demonstrated a focus on free cash flow generation with a track record of successfully reallocating capital into new growth opportunities.

Business Strategy

Neo aims to strengthen and expand its position as a premium operator in the REE and rare metal processing industry by focusing on highly engineered, functional materials and innovative collaboration with customers, while maintaining strong operating margins and pursuing multiple growth avenues.

Focused on Highly Engineered, Functional Materials

Neo specifically engineers proprietary products, tailored to its customers' unique applications. By focusing on highly engineered functional REE and rare metal materials, Neo is able to differentiate itself from domestic Chinese processors, who focus primarily on separation, a relatively commoditized process. Neo's status as the only

non-Chinese operator permitted to separate REEs in China provides sustainable competitive advantages over other international producers. This combination of targeting customers who require highly tailored functional materials, while benefitting from local sourcing and production, allows Neo to produce premium materials at a relatively low cost and offer its products to its customers at competitive prices.

Innovation Partner for Customers

Neo has always strived to foster collaborative relationships with its customers. To that end, Neo has established joint innovation efforts, which serve to enhance the alignment between Neo's R&D efforts and its customers' changing demands. For example, Neo's customer-centric business model mitigates the risk of changes in REE or rare metal applications, as it keeps Neo close enough to its customers to anticipate their changing demands. For example, Neo has been at the forefront of the development process for NdFeB magnets used in EV main motors and HEV traction motors, working in collaboration with several of its key customers. In 2010, one of Neo's largest customers, a major magnet producer, Daido, developed a new hot deformation process that could produce magnet shapes preferred by HEV and EV motor designers. In 2011, Daido asked Neo to develop an MQU powder that produced higher magnet strength and was more amenable to hot deformation. Daido approached a leading automotive manufacturer, Honda Motor Co. Ltd. ("**Honda**"), with the idea of using the new technology to produce magnets for HEV traction motors. In mid-2015, after a period of developing and evaluating hundreds of unique samples, this new MQU powder was completed. Both Daido and Honda publicly announced the HREE-free traction motor in July 2016, with production commencing that year. This culminated a successful period of collaboration among Neo, Daido and Honda and provides Neo with an exciting growth opportunity to leverage increasing demand for HEVs.

Managing Volatility of Underlying Commodity Prices

Neo's pricing mechanisms allow Neo to pass through underlying commodity price fluctuations, supporting stable margins over the long-term, independent of input price volatility. Neo focuses on the continuous management of raw material costs, production costs and average selling prices over long-term pricing cycles. Neo's pricing strategy is supported by a flexible cost structure, with approximately 80% of costs of goods sold being variable.

Multiple Avenues for Growth

Management has a three-pronged strategy for growth including continued growth of existing products, growth from product development and growth through product portfolio expansion.

- ***Continued Growth from Existing Products:*** Neo is well positioned to supply materials into higher growth applications within broader magnetic, catalytic, electronic, healthcare and aerospace markets. Neo has a strong competitive position with high barriers to entry through the combination of longstanding customer relationships, product development and processing know-how, cost competitive manufacturing locations, global reach with direct sales channels and geographic diversification of REE manufacturing and raw material supply (inside and outside China). Neo's existing products provide compelling market share and market growth opportunities. For example, in the past three years, Neo has doubled its auto catalyst sales and is now a top three supplier globally in the industry.
- ***Growth from Product Development:*** Neo works closely with customers to improve the performance of existing products as well as to develop new applications. Neo is currently working on materials for next generation applications including magnetic powders and auto catalysts. Neo is also active in identifying functional engineered materials for new end markets utilizing REEs and rare metals. Neo has a strong track record of collaborating with its customers, who rely on the unique functionality provided by REEs and rare metals. As a result, Neo does not typically lose customers, but works with customers to transition from old to new applications. This is demonstrated by the percentage of revenue derived from new products that did not exist five years ago, which management believes to be greater than 20% of consolidated revenue, primarily from longstanding customers.

New product development can take the form of (i) new products for existing markets (such as Neo's recent commercialization of its wastewater treatment initiative targeting municipal and industrial wastewater treatment facilities), or (ii) the evolution of existing products for new markets (such as Neo's supply of

phosphors to the cathode ray tube television display market which has evolved to see Neo supply phosphors to new flat panel display technologies such as LCD, plasma and OLED displays). Neo's customer relationships help to facilitate this product innovation, as was the case in the development of Neo's MQU powder. Neo's work in partnership with Daido and Honda led to the commercialization of HREE-free traction motors, now an exciting new platform for future growth.

- **Growth through Product Portfolio Expansion:** Neo has a strong balance sheet and the financial flexibility to selectively pursue strategic acquisitions that provide product portfolio expansion, targeting companies or assets that would benefit from Neo's scale, global reach, high quality customer relationships, cost competitive facilities and product development skills and know-how. Neo has successfully integrated acquired assets such as the Silmet facility in Estonia and replicated its unique technologies into new geographies, including taking gallium processing technology from its Oklahoma facility and successfully replicating it in its South Korea facility.

Management believes that its growth strategy will enable Neo to capitalize on key growth trends. To support this organic and development growth, Neo's total capital expenditures are expected to be in the range of \$8-15 million annually, with higher volumes achieved primarily through increased capacity utilization. As most of the critical infrastructure is currently in place, the capital expenditures required to expand capacity are primarily related to the purchase of machinery and equipment.

The below table shows the expected industry growth rates for each segment based on management estimates.

Industry Growth Trends					
Magnequench		Chemicals and Oxides		Rare Metals	
Auto		Non-Auto	Products	Magnetics & Molecules	Electronics & Specialty
Applications	EPS Seat Motor Battery	HDD Automation	Auto-Catalysts Water Treatment	Magnetics Various	Superalloys Semiconductors LED lights on electronics
	▪ Electrification, miniaturization and light-weighting of vehicles motors	▪ Motor miniaturization	▪ Increased emissions regulations	▪ Motor miniaturization	▪ Alloy specialization
	▪ Improved motor capability		▪ Growth of water treatment demand		▪ Technical innovation in health care, defense, aerospace and electronics
Growth Rate	~6-12%		~4-10%		~3-7%

The Offering

<i>Issuer:</i>	Neo Performance Materials Inc.
<i>Selling Shareholder:</i>	OCM Neo Holdings (Cayman), L.P.
<i>Offering Price:</i>	C\$ ● per Offered Share. It is anticipated that the Offering Price will be between C\$19.00 and C\$22.00 per Offered Share.
<i>Offering Size:</i>	C\$300,000,000. If the Over-Allotment Option is exercised in full, the Offering Size will be C\$345,000,000.
<i>Amount:</i>	● Offered Shares (● Offered Shares, if the Over-Allotment Option is exercised in full) representing approximately ● % (● % if the Over-Allotment Option is exercised in full) of the issued and outstanding Common Shares.
<i>Over-Allotment Option:</i>	The Underwriters shall have the option, exercisable in whole or in part, at any time on or prior to the 30 th day after the Closing Date to purchase Additional Shares from the Selling Shareholder equal to up to 15% of the number of Offered Shares sold on the Closing Date to cover over-allotments, if any, and for market stabilization purposes. See “ <i>Plan of Distribution</i> ”.
<i>Shares Outstanding:</i>	Immediately following the completion of the Arrangement, an aggregate of 39,878,384 Common Shares will be issued and outstanding, excluding Common Shares that may be issued upon exercise of outstanding options, warrants or other convertible securities issued by the Company. See “ <i>Description of Share Capital</i> ”.
<i>Shares held by the Selling Shareholder following Closing:</i>	Upon completion of the Offering (but without giving effect to the exercise of the Over-Allotment Option), based on the midpoint of the estimated price range set forth on the cover page of this Prospectus, the Selling Shareholder will, directly and indirectly, own or control an aggregate of 23,361,954 Common Shares, representing approximately 58.6% of the issued and outstanding Common Shares (21,166,832 Common Shares, representing approximately 53.1% of the issued and outstanding Common Shares, if the Over-Allotment is exercised in full). See “ <i>Principal Shareholders and Selling Shareholder</i> ”.
<i>Restrictions on Securities Distributions:</i>	Pursuant to the Underwriting Agreement, the Company agrees that it will not issue, announce any issue or agree to issue any securities of the Company, other than issuances (i) under existing director, employee or consultant stock option, bonus or other compensation plans, (ii) under director or employee stock options or bonuses granted subsequently in accordance with regulatory approval, or (iii) of Common Shares issued as consideration for the acquisition by the Company or a direct or indirect subsidiary of the company, of any property, assets or shares, whether by way of acquisition, merger, amalgamation, plan of arrangement, business combination, take-over bid or otherwise, during the period beginning as of the date of this Prospectus and ending 180 days after the Closing Date, without the written agreement of the Underwriters, such agreement not to be unreasonably withheld. In addition, pursuant to the Underwriting Agreement, each of the Company’s executive officers and directors and certain shareholders will agree that he, she or it will not, directly or indirectly, without the written agreement of the Underwriters, such agreement not to be unreasonably withheld, offer or sell or grant any option, warrant or other right to purchase or agree to issue or sell or otherwise lend, transfer, assign or dispose of any Common Shares or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Shares, or agree or publicly announce any intention to do any of the foregoing during the period beginning as of the date of this Prospectus and ending 180 days after the Closing Date, subject to certain limited exceptions. See “ <i>Plan of Distribution – Restrictions on Securities Distributions</i> ”.

<i>Dividend Policy:</i>	The Company intends to adopt a dividend policy, which is anticipated to be effective 90 days after the Closing Date, pursuant to which it will pay cash dividends on the Common Shares to shareholders of the Company as of each dividend record date, targeted to be the last day of each calendar quarter. The Company anticipates that the dividend on the Common Shares will be C\$0.095 per Common Share per quarter (C\$0.38 per Common Share per fiscal year). See “ <i>Dividend Policy</i> ” and “ <i>Description of Share Capital</i> ”.
<i>Underwriters’ Commission:</i>	The Underwriters will be paid the Underwriters’ Commission, which is equal to <ul style="list-style-type: none"> ● % of the aggregate gross proceeds from the sale of the Offered Shares pursuant to the Offering. See “<i>Plan of Distribution</i>”.
<i>Closing:</i>	The closing of the Offering is expected to occur on or about ● , 2017 or such later date as the Company and the Underwriters may agree.
<i>Underwriters:</i>	Scotia Capital Inc., RBC Dominion Securities Inc., Cormark Securities Inc., CIBC World Markets Inc., Barclays Capital Canada Inc., Canaccord Genuity Corp., GMP Securities L.P. and Raymond James Ltd.

Risk Factors

An investment in the Offered Shares should be considered highly speculative and investors may incur a loss on their investment. The following risk factors should be carefully considered in evaluating the Company. A reader should carefully consider information included in this Prospectus before purchasing securities and risks related to: there being no public market for securities of the Company; the volatility of the price of the Common Shares; the dividend policy of the Company; financial reporting and other public company requirements; forward-looking information; having a significant shareholder; future sales of Common Shares; dilution; quarterly operating results varying from quarter to quarter; Board discretion; analyst reports; international operations; currency risk; expiry of joint venture agreements; changes in China’s regulation of the rare earths industry; intellectual property; customer dependence; general economic conditions; competition; uncertainty regarding Chinese withholding tax and indirect transfers of Chinese enterprises by non-Chinese residents; environmental liability exposure; supplies of raw materials; fluctuations in demand for, and prices of rare earth products; product recalls; rapid technological change; changes in tax laws; risks of operations and insurance; additional financing requirements; failure to manage the Company’s growth effectively; potential for incurring unexpected costs or liabilities as a result of acquisitions; dependence on good relations with employees; reliance on key personnel; and information technology and cybersecurity. For a full discussion of these and other risks, see “*Risk Factors*.”

Selected Financial Information

The following selected historical financial information as at and for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, have been derived from Neo Cayman’s consolidated financial statements for the period from April 5, 2016 (date of incorporation) to December 31, 2016 and the combined carve-out financial statements for the eight-month period ended August 30, 2016, and years ended December 31, 2015 and December 31, 2014, in each case, prepared in accordance with IFRS and included elsewhere in this Prospectus. For the purpose of providing comparable information, Neo Cayman has prepared unaudited combined supplemental financial information for the year ended December 31, 2016, which include adjustments and which Neo Cayman refers to herein as “Fiscal 2016”. See “*Management’s Discussion and Analysis – Basis of Presentation*”. The selected consolidated financial information set out below for the three and six-month periods ended June 30, 2017 and June 30, 2016 have been derived from Neo Cayman’s unaudited interim condensed consolidated financial statements (with Predecessor condensed combined carve-out financial statements) prepared in accordance with IAS 34, *Interim Financial Reporting* and included elsewhere in this Prospectus. The selected consolidated financial information set out below for the last twelve month (“LTM”) period ended June 30, 2017 has been derived from Neo Cayman’s unaudited interim condensed consolidated financial statements for the three and six-month periods ended June 30, 2017 prepared in accordance with IAS 34, *Interim Financial Reporting* and from the unaudited combined supplemental financial information for the year ended December 31, 2016 appearing elsewhere in this Prospectus.

Prospective investors should review this information in conjunction with the consolidated financial statements including the notes thereto, as well as “Non-IFRS Financial Measures”, “Management’s Discussion and Analysis”, “Risk Factors”, “Plan of Distribution”, “Consolidated Capitalization” and “Description of Share Capital” included elsewhere in this Prospectus.

Selected Summary of Statement of Profit and Loss

(\$000s)	LTM	Six month period ended June 30, 2017	Six month period ended June 30, 2016	Combined Year ended December 31, 2016 ⁽¹⁾	Year ended December 31, 2015	Year ended December 31, 2014
	Combined	Successor	Predecessor	Combined	Predecessor	Predecessor
Revenue	403,999	208,296	186,427	382,130	396,826	454,450
Cost of sales						
Costs excluding depreciation & amortization ⁽²⁾	276,798	141,993	136,837	271,642	294,670	342,610
Depreciation and amortization ...	10,741	4,932	5,283	11,092	14,832	19,663
Gross profit	116,460	61,371	44,307	99,396	87,324	92,177
Expenses						
Selling, general and administrative	53,545	27,126	22,879	49,298	45,419	45,511
Stock-based compensation	4,981	4,981	—	—	—	—
Depreciation and amortization ...	7,211	3,396	3,887	7,702	18,913	24,933
Research and development	13,817	7,182	6,917	13,552	13,257	14,739
Impairment of goodwill and other long-lived assets	—	—	—	—	203,928	222,246
	79,554	42,685	33,683	70,552	281,517	307,429
Operating income (loss)	36,906	18,686	10,624	28,844	(194,193)	(215,252)
Other income (expense)	2,448	3,049	1,944	1,343	(8,326)	(3,283)
Finance costs, net	(3,375)	25	(3,921)	(7,321)	(8,347)	(11,496)
Foreign exchange (loss) gain	(999)	(523)	(4,350)	(4,826)	7,613	2,462
Reorganization items	(1,993)	—	(478)	(2,471)	(32,187)	—
Income (loss) from operations before income taxes and equity income of associates	32,987	21,237	3,819	15,569	(235,440)	(227,569)
Income tax (expense) benefit	(10,518)	(4,067)	(7,477)	(13,928)	9,980	7,376
Income (loss) from operations before equity income of associates	22,469	17,170	(3,658)	1,641	(225,460)	(220,193)
Equity income (loss) and impairment of associates (net of income tax)	327	605	347	69	(702)	(5,413)
Net income (loss)	22,796	17,775	(3,311)	1,710	(226,162)	(225,606)
Attributable to:						
Equity holders of Neo Cayman Holdings Ltd. / Parent’s investment	22,611	17,472	(3,266)	1,873	(223,842)	(207,361)
Non-controlling interest	185	303	(45)	(163)	(2,320)	(18,245)

Notes:

(1) Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See “Management’s Discussion and Analysis – Basis of Presentation”.

- (2) Combined Year ended December 31, 2016 includes an add back of \$24,150 relating to the acquired inventory fair value release. Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See “*Management’s Discussion and Analysis – Basis of Presentation*”.

Selected Summary of Statement of Financial Position

(\$000s)	As at	As at
	June 30, 2017	December 31, 2016
	Successor	Successor
Cash ⁽¹⁾	77,970	79,408
Working capital ⁽²⁾	118,865	95,963
Property, plant, and equipment	85,895	87,818
Intangible assets	74,265	75,404
Goodwill	100,005	98,911
Total assets	524,082	513,751
Total debt	—	7,925
Total liabilities	93,547	109,655
Total equity	430,535	404,096

Notes:

- (1) Neo Cayman has declared a pre-Offering dividend of approximately \$25.0 million. Following the payment of such dividend, Neo’s September 30, 2017 pro forma cash balance would have been approximately \$88.1 million.
- (2) Calculated as the sum of accounts receivable, inventories, income tax receivable and other current assets less the sum of accounts payable and other accrued charges, income tax payable and other current liabilities.

Selected Summary of Statement of Cash Flows

(\$000s)	Six month period ended		Six month period ended		Combined	Year ended	Year ended
	June 30, 2017		June 30, 2016		Year ended	December 31,	December 31,
	LTM	Successor	Predecessor	Predecessor	December 31, 2016	December 31, 2015	December 31, 2014
	Combined	Successor	Predecessor	Predecessor	Combined	Predecessor	Predecessor
Cash generated from (used in)							
Operating activities	12,251	9,922	39,692	42,021	51,218	54,006	
Investing activities	(23,299)	(4,294)	(18,309)	(37,314)	(25,020)	(68,111)	
Financing activities	(17,029)	(8,169)	(15,344)	(24,204)	(30,719)	(15,611)	

Cash flow from operating activities includes cash outflows related to restructuring activities associated with the Chapter 11 Cases and the Reorganization. The following was the impact of the cash outflows associated with the restructuring fees.

(\$000s)	Six month period ended		Six month period ended		Combined	Year ended	Year ended
	June 30, 2017		June 30, 2016		Year ended	December 31,	December 31,
	LTM	Successor	Predecessor	Predecessor	December 31, 2016	December 31, 2015	December 31, 2014
	Combined	Successor	Predecessor	Predecessor	Combined	Predecessor	Predecessor
Cash generated from Operating Activities	12,251	9,922	39,692	42,021	51,218	54,006	
Cash outflows associated with Reorganization activities ...	30,926	5,556	—	25,370	—	—	
Cash Generated from Operating Activities excluding Reorganization activities	43,177	15,478	39,692	67,391	51,218	54,006	

Reconciliation of Operating Income (Loss) to OIBDA and Adjusted OIBDA

(\$000s)	LTM		Six month period ended	Six month period ended	Combined	Year ended	Year ended
	Combined	Successor	June 30, 2017	June 30, 2016	Year ended December 31, 2016	December 31, 2015	December 31, 2014
			Predecessor	Predecessor	Combined	Predecessor	Predecessor
Operating income (loss)	36,906	18,686	10,624	28,844	(194,193)	(215,252)	
Add:							
Depreciation and amortization included in costs of sales	10,741	4,932	5,283	11,092	14,832	19,663	
Depreciation and amortization	7,211	3,396	3,887	7,702	18,913	24,933	
OIBDA	54,858	27,014	19,794	47,638	(160,448)	(170,656)	
Adjustments to OIBDA ⁽¹⁾ :							
Stock-based compensation	4,981	4,981	—	—	—	—	
Impairment of goodwill and other long-lived assets	—	—	—	—	203,928	222,246	
Acquired inventory fair value release ⁽²⁾	3,443	3,443	—	—	—	—	
Loss related to Molycorp's product	—	—	—	—	5,810	2,010	
Adjusted OIBDA	63,282	35,438	19,794	47,638	49,290	53,600	
<i>Adjusted OIBDA Margin</i>	<i>15.7%</i>	<i>17.0%</i>	<i>10.6%</i>	<i>12.5%</i>	<i>12.4%</i>	<i>11.8%</i>	

Notes:

- (1) For a description of the adjustments referred to in the table above, see "Management's Discussion and Analysis – Non-IFRS Financial Measures".
- (2) The portion of this inventory sold in the Combined Year ended December 31, 2016 of \$24,150 has already been added back to the reporting operating income in the calculation of the Combined Year ended December 31, 2016 results. Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "Management's Discussion and Analysis – Basis of Presentation".

Neo uses references to Adjusted OIBDA and Adjusted EBITDA interchangeably as the use of adjustments in each measure provides the same calculated outcome of operating performance. Management believes that the use of these adjustments (as defined in Adjusted EBITDA and Adjusted OIBDA) provides a more consistent measure of the underlying operating performance, with comparability among periods that investors may find useful. The exclusion of certain adjustments does not imply that they are non-recurring.

Reconciliation of Net Income (Loss) to EBITDA, Adjusted EBITDA and Free Cash Flow

	LTM	Six month period ended June 30, 2017	Six month period ending June 30, 2016	Combined Year ended December 31, 2016 ⁽⁴⁾	Year ended December 31, 2015	Year ended December 31, 2014
	Combined	Successor	Predecessor	Combined	Predecessor	Predecessor
(\$000s)						
Net income (loss)	22,796	17,775	(3,311)	1,710	(226,162)	(225,606)
Add Back:						
Finance costs, net	3,375	(25)	3,921	7,321	8,347	11,496
Income tax expense (benefit)	10,518	4,067	7,477	13,928	(9,980)	(7,376)
Depreciation and amortization included in costs of sales	10,741	4,932	5,283	11,092	14,832	19,663
Depreciation and amortization	7,211	3,396	3,887	7,702	18,913	24,933
EBITDA	54,641	30,145	17,257	41,753	(194,050)	(176,890)
Adjustments to EBITDA⁽¹⁾						
Equity (income)/loss and impairment of associates (net of income tax)	(327)	(605)	(347)	(69)	702	5,413
Other (income) expense	(2,448)	(3,049)	(1,944)	(1,343)	8,326	3,283
Foreign exchange loss (gain)	999	523	4,350	4,826	(7,613)	(2,462)
Reorganization items	1,993	—	478	2,471	32,187	—
Stock-based compensation	4,981	4,981	—	—	—	—
Impairment of goodwill and other long-lived assets	—	—	—	—	203,928	222,246
Acquired inventory fair value release ⁽²⁾	3,443	3,443	—	—	—	—
Loss related to Molycorp's product	—	—	—	—	5,810	2,010
Adjusted EBITDA	63,282	35,438	19,794	47,638	49,290	53,600
<i>Adjusted EBITDA Margin</i>	<i>15.7%</i>	<i>17.0%</i>	<i>10.6%</i>	<i>12.5%</i>	<i>12.4%</i>	<i>11.8%</i>
Less:						
Capital expenditures	8,308	4,303	3,309	7,314	9,327	8,243
Free Cash Flow	54,974	31,135	16,485	40,324	39,963	45,357
<i>Free Cash Flow Conversion⁽³⁾</i>	<i>86.9%</i>	<i>87.9%</i>	<i>83.3%</i>	<i>84.6%</i>	<i>81.1%</i>	<i>84.6%</i>

(1) For a description of the adjustments referred to in the table above, see "Management's Discussion and Analysis – Non-IFRS Financial Measures".

(2) The portion of this inventory sold in the Combined Year ended December 31, 2016 of \$24,150 (and related tax expense of \$5,130) has already been added back to the reported net income (loss) in the calculation of the Combined Year ended December 31, 2016 results. See the table that illustrates the combination of Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "Management's Discussion and Analysis – Basis of Presentation".

(3) Calculated as Free Cash Flow divided by Adjusted EBITDA.

(4) Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "Management's Discussion and Analysis – Basis of Presentation".

Recent improvement in Adjusted EBITDA in the LTM Period

Adjusted EBITDA increased to \$63.3 million for the twelve month period ended June 30, 2017. In the six months ended June 30, 2017 (all post-Reorganization proceedings), Adjusted EBITDA was \$35.4 million compared to the six month period ended June 30, 2016 of \$19.8 million. The primary reasons for the recent improvement in the Adjusted EBITDA performance for the six month period ended June 30, 2017 compared to the prior period, include: increased volumes across all three business units; capturing more high value sales opportunities; reduction in abnormal costs; continuous operational improvements; and increased rare metals throughput at Neo's Silmet facility. See "Management's Discussion and Analysis".

Reconciliation of Net Income to Adjusted Net Income

	LTM	Six month period ended June 30, 2017	Six month period ended June 30, 2016	Combined Year ended December 31, 2016 ⁽¹⁾
	Combined	Successor	Predecessor	Combined
<i>(\$000s, except per share amounts)</i>				
Net income (loss)	22,796	17,775	(3,311)	1,710
Adjustments to net income (loss)⁽²⁾:				
Reorganization items	1,993	—	478	2,471
Foreign exchange loss (gain)	999	523	4,350	4,826
Stock-based compensation	4,981	4,981	—	—
Acquired inventory fair value release	3,443	3,443	—	—
Tax impact of the above items	(548)	(572)	—	24
Adjustment to deferred tax asset	(1,941)	—	—	(1,941)
Adjusted net income	31,723	26,150	1,517	7,090
Attributable to:				
Equity holders of Neo Cayman Holdings Ltd. /				
Parent's investment	31,478	25,787	1,562	7,253
Non-controlling interest	245	363	(45)	(163)
Weighted average number of common shares outstanding⁽³⁾:				
Basic	39,878,384			
Diluted	●			
Adjusted earnings (loss) per share attributable to equity holders of Neo Cayman Holdings Ltd.				
Basic	\$ 0.79			
Diluted	●			

Notes:

- (1) Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "Management's Discussion and Analysis – Basis of Presentation".
- (2) For a description of the adjustments referred to in the table above, see "Management's Discussion and Analysis – Non-IFRS Financial Measures".
- (3) For the LTM period, the number of shares is based on the number of shares that would have been outstanding assuming the Offering and the Arrangement occurred at the beginning of the period.

Recent Developments for the Three Month Period Ended September 30, 2017

(\$ millions, except volume)	Three month period ended September 30, 2017	Three month period ended September 30, 2016	Variance	%
	Successor	Combined		
Volume				
Magnequench	1,681	1,369	312	22.8%
Chemicals & Oxides	2,265	2,140	125	5.8%
Rare Metals	102	91	11	12.1%
Elimination	(92)	(120)	28	n.m.
	3,956	3,480	476	13.7%
Revenue				
Magnequench	54	41	13	31.9%
Chemicals & Oxides	50	40	10	24.3%
Rare Metals	17	18	(1)	(4.2%)
Elimination	(5)	(4)	(1)	n.m.
	116	95	21	
Operating income ⁽¹⁾	10.5 to 11.5	10.0	0.5 to 1.5	
Adjusted EBITDA ⁽²⁾	16.0 to 17.0	14.1	1.9 to 2.9	
Adjusted EBITDA for the twelve months ended				
September 30, 2017	65.2 to 66.2			
Consolidated cash	113.1	89.1	24.0	
Less:				
Pre-Offering dividend	25.0			
Pro forma cash	88.1			

(1) The Combined three month period ended September 30, 2016 includes the add-back for the step-up in inventory value acquired upon the adoption of Business Combination.

(2) Adjustments to EBITDA have been applied consistently with the prior periods. See Reconciliation of Net Income (Loss) to EBITDA, Adjusted EBITDA and Free Cash Flow in the section entitled "Selected Financial Information" and "Management's Discussion and Analysis".

The primary business trends in the three month period ended September 30, 2017 are similar to those trends as discussed for the six month period ended June 30, 2017. Please See "Management's Discussion and Analysis". Additional factors impacting the three month period ended September 30, 2017 are highlighted below.

Rare earth commodity prices rose significantly during July and August before settling back slightly in September.

In Magnequench, Neo estimates this translated to 100 to 200 tonnes of additional volume as customers attempted to buy ahead in anticipation of the Magnequench pass-through reset in October (pass-through adjustments are made primarily monthly and quarterly). Independent of this, volumes continued to rise as they have throughout the year.

In rare earth separation, the C&O segment was able to capture some additional margin from the higher prices as its inventory (and cost of sales) would have been purchased at the previously lower concentration input cost.

The auto catalyst volumes were lower than previous levels due primarily to the impact on production levels from the recent change in environmental standards affecting the ZAMR facility. The C&O segment continues to anticipate returning to full capacity (with an updated water treatment system) by the end of 2017.

Financial performance, in terms of operating income and Adjusted EBITDA, continues to rise with a corresponding increase in projected operating income and Adjusted EBITDA for the twelve month period ended September 30, 2017. This is as a result of the increased volumes at Magnequench and the increased price and margin in rare earths. This was offset by the lower auto catalyst profits. The Rare Metals business continues to operate with similar trends as the first half of the year.

CORPORATE STRUCTURE

Name and Incorporation

The Company was incorporated under the OBCA on September 12, 2017. The Company's registered and head office is located at 121 King Street West, Suite 1740, Toronto, Ontario M5H 3T9.

Corporate History

Neo's operations trace back to AMR, which began operating in China in 1994 after acquiring majority interests in two joint ventures in China (ZAMR and JAMR, see "*Intercorporate Relationships*"). AMR was listed on the TSX in 1995.

In 2005, AMR completed the acquisition of Magnequench, Inc. combining the rare earth processing business of AMR and the magnetic powder production businesses of Magnequench, Inc., which had been designing and manufacturing magnetic powder since 1985. In June 2006, AMR changed its name to NEM.

From 2009 to 2011, NEM underwent a period of expansion, acquiring a rare metals producer with facilities in Ontario and Utah, acquiring majority interests in additional rare metals production facilities in Oklahoma and Sagard, Germany, and completing the construction of a new production facility in Hyeongok, South Korea.

In 2012, NEM was acquired by Molycorp for \$1.3 billion. Following the Molycorp Acquisition, the NEM business continued to be operated substantially as an independent business as Molycorp's management was focused on executing a \$1.7 billion project (primarily funded with debt) to expand and modernize its rare earth mine in Mountain Pass, California. In late 2009, China placed restrictions on the export of REEs, causing prices of REEs to increase significantly on the international market, which incentivized development of higher cost global reserves, including Mountain Pass. In December 2014, China eased its restrictions on exports of REEs and pricing deteriorated, rendering Mountain Pass' mining operations uneconomic.

In June 2015, Molycorp, together with certain of its subsidiaries, filed a voluntary petition of reorganization under Chapter 11 of Title 11 of the United States Bankruptcy Code in the United States Bankruptcy Court of the District of Delaware. In July 2015, Oaktree provided debtor-in-possession financing to Molycorp. After filing for Chapter 11 bankruptcy protection, Molycorp suspended operations at the Mountain Pass mine in October 2015. NEM continued to grow under Molycorp's ownership, with auto catalyst products, the launch of a water treatment phosphate removal business and MQU (a new proprietary magnetic powder formulation).

In the Reorganization process, Molycorp's Mountain Pass mine and processing facility was separated from the businesses of NEM, so that the NEM business no longer had any connection to Molycorp's Mountain Pass mine and facility. On August 31, 2016, pursuant to the terms of the Fourth Amended Plan of Reorganization, certain of Molycorp's subsidiaries emerged from Chapter 11 protection, and \$1.7 billion of Molycorp's debt (which included debt owed to Oaktree) was settled in exchange for equity of the reorganized business, and Molycorp was liquidated. The newly reorganized Neo business comprised essentially the original business of NEM (as it existed prior to the completion of the Molycorp Acquisition), with the addition of Molycorp's Silmet facility located in Sillamäe, Estonia. The businesses of NEM are now organized under a number of direct and indirect subsidiaries held by Neo Cayman, which is currently controlled by the Selling Shareholder. Neo Cayman emerged from the Reorganization with an improved capital structure and renewed focus on expanding its business. The NEM businesses consistently generated positive cash flow during the Reorganization process and Neo Cayman now benefits from a strong balance sheet with, as of June 30, 2017, approximately \$78.0 million of cash and no debt.

The Arrangement

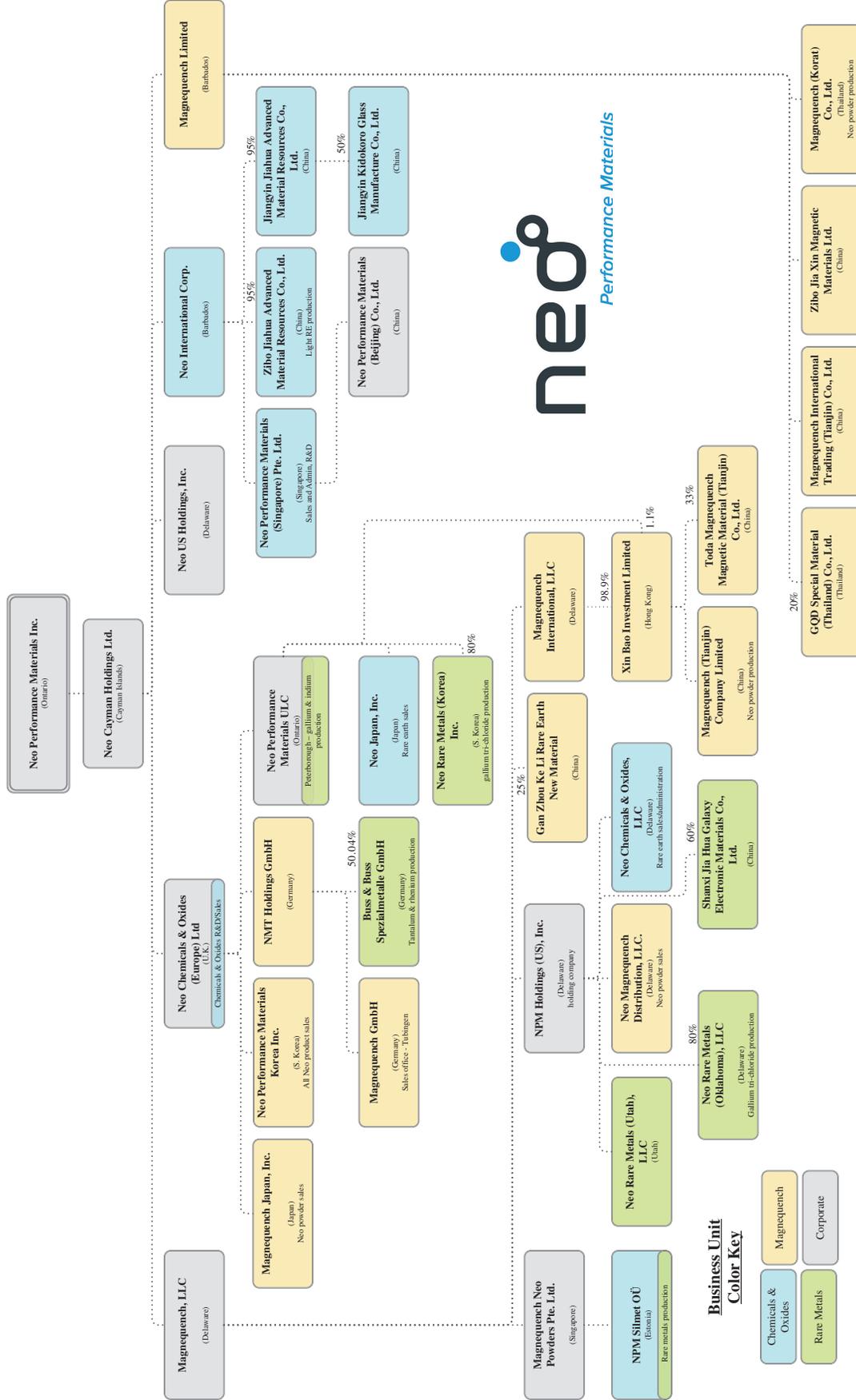
Prior to the completion of the Offering, the Company and Neo Cayman intend, subject to the making of the Sanction Order by the Court, to complete the Arrangement, pursuant to which, the Company would acquire all of the outstanding ordinary shares of Neo Cayman in exchange for an aggregate of 39,878,383 Common Shares, a portion of which constitute the Offered Shares. The effect of the Arrangement will be that Neo Cayman will become a wholly-owned subsidiary of the Company and the Company will carry on the business of Neo Cayman as carried on immediately prior to the Arrangement.

The Arrangement is a statutory procedure under applicable Cayman Islands law and requires the approval of the Court as well as certain majorities of the shareholders of Neo Cayman at the Neo Cayman Meeting. The Arrangement will become legally binding on all shareholders of Neo Cayman, including those voting against the Arrangement and those not voting at the Neo Cayman Meeting, provided that at least a majority in number of the shareholders of Neo Cayman, representing at least 75% in value of shareholders, present and voting (either in person or by proxy) at the Neo Cayman Meeting vote in favour of the Arrangement. The Court is expected to then make the Sanction Order. The Arrangement will become effective and legally binding in accordance with its terms when the Sanction Order is filed with the Cayman Islands Register of Companies.

Neo Cayman obtained the Convening Order from the Court on October 19, 2017, which provides for, among other things, the convening of the Neo Cayman Meeting and other procedural matters. Following the approval of the Arrangement at the Neo Cayman Meeting, the hearing before the Court at which the Court will consider whether to exercise its discretion to make the Sanction Order is expected to take place on November 16, 2017 at The Law Courts, George Town, Grand Cayman, Cayman Islands. The Court will consider, among other things, the fairness of the Arrangement. The Court may approve the Arrangement in any manner the Court may direct, subject to compliance with terms and conditions, if any, as the Court deems fit. It is expected that the Arrangement will become effective shortly after the Sanction Order is obtained.

Intercorporate Relationships

The following chart identifies the Company's material subsidiaries (including jurisdiction of formation) following completion of the Arrangement. All entities are wholly-owned, directly or indirectly, by the Company, except where indicated.



INDUSTRY OVERVIEW

Overview

Neo has established itself as a global leader in the innovation and manufacturing of rare earth- and rare metal-based functional materials, which are essential inputs to high technology, high growth, future-facing industries. Neo has a global platform that includes 10 manufacturing facilities located in China, the United States, Germany, Canada, Thailand and South Korea, as well as two dedicated R&D centres in Singapore and the U.K. Neo is the only non-Chinese company with a license to separate REEs in China which provides unique competitive advantages and a degree of vertical integration. Neo separates and processes REEs into highly engineered and valuable REO-based functional materials. Since 1994 Neo has leveraged its rare earth separation expertise to innovate and grow into a leading manufacturer of functional engineered materials for specialty end markets, establishing the #1 global market position in bonded and hot deformed magnet powders, with an estimated 70 to 75% market share, a top three global market position in auto catalysts, the #1 GaCl₃ producer for LEDs and growth opportunities into new end markets such as wastewater treatment.

Neo works in close collaboration with its customers to engineer and develop new materials, which require exacting chemical, physical and metallurgical processing targeting specific morphology, crystal structure, chemical composition and purity to enhance functionality. REOs and rare metals are indispensable inputs for many applications given their unique physical and chemical properties which include magnetic, catalytic, luminescence, electrochemical, thermal stability and superconductivity. These unique properties enable REOs and rare metals to provide essential functionality for hundreds of existing and emerging technologies, including light weight and efficient micro motors containing permanent magnets, air and water emission-control catalysts, electronics, medical equipment, aerospace components and clean energy applications. The functionality provided by REOs and rare metals has become increasingly prevalent as greater electrification of automobiles, more stringent air and water emission standards, and the need for energy efficiency, miniaturization, durability and thermal stability have increased in importance for customers and end users due to technological innovation and higher environmental standards.

Permanent Rare Earth Magnet Industry

There are two commercially important classes of permanent magnets: ferrite (iron-based) and NdFeB (rare-earth based). According to Roskill¹, production of permanent magnets was estimated to have been 799,200 tonnes in 2016, of which ferrite magnets accounted for 88% of 2016 global production with NdFeB and other permanent magnets accounting for 11% and 1%, respectively. China leads the production of permanent magnets and accounts for more than two-thirds of world production.

Ferrite magnets represent the largest market and are used in a wide range of lower performance applications where low cost is critical but size and efficiency is less important. NdFeB magnets are preferred in applications where high performance, efficiency and small size are paramount. There are three primary types of NdFeB magnets: sintered, bonded and hot deformed. Neo is the #1 global market leader within the bonded and hot deformed magnetic powder industry with an estimated 70 to 75% market share. Sintered magnets are stronger relative to bonded magnets; however, bonded magnets are better suited for applications that require small or complex shapes due to their ability to be pressed and extruded without further processing.

According to Roskill², sintered magnets currently account for 91% of production with bonded and hot deformed magnets accounting for the remaining 9%. Since bonded and hot deformed magnets represent a small portion of the broader permanent magnet market, small market share gains at the expense of ferrite and sintered magnets represent meaningful growth. Management believes that bonded and hot deformed magnets are well positioned to gain market share due to their increased efficiency and smaller size.

NdFeB Magnet Growth

NdFeB magnets exhibit the highest magnetic strength of any permanent magnet commercially available. According to Roskill³, global demand for REO in permanent magnet applications is forecast to grow at an estimated 10.1% CAGR from 2016 to 2021. Growth of permanent magnets has come from the use of small size NdFeB magnets

¹ Roskill, Rare Earths: Global Industry, Markets and Outlook to 2026 (Sixteenth Edition, 2016).

² Roskill, *ibid.*

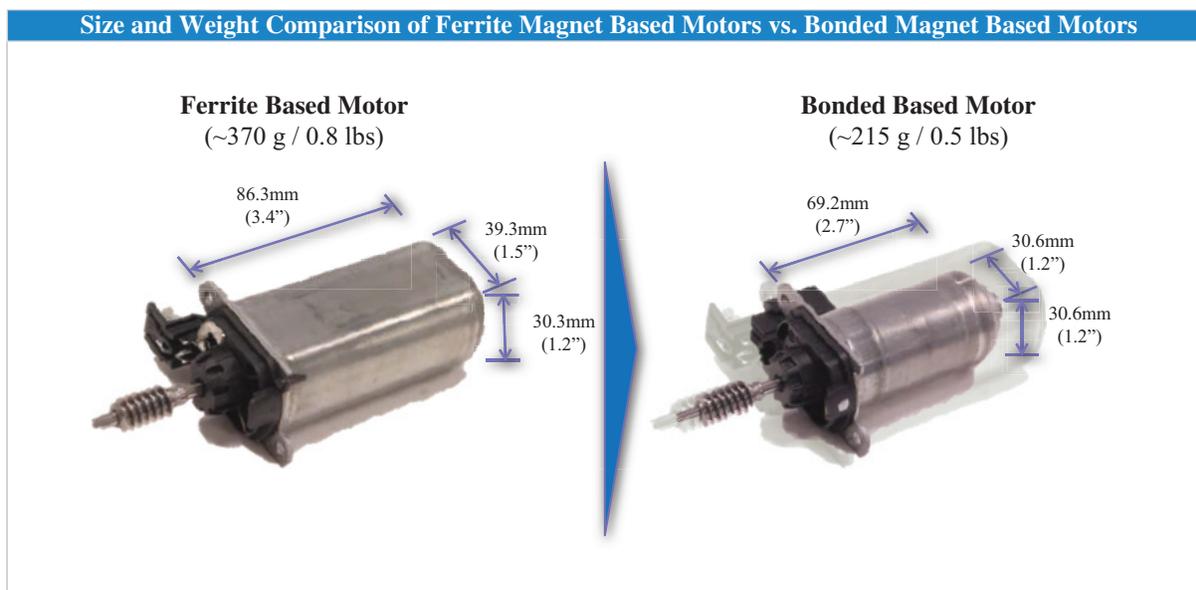
³ Roskill, *ibid.*

in motors, sensors and actuators for consumer electronics and automotive applications. In addition, increasing quantities of NdFeB magnets have been used in wind turbines and motors for new energy vehicles (i.e. hybrid electric and electric vehicles). As an industry leader in bonded and deformed magnetic powders, Neo is well-positioned to benefit from this industry growth. Since Neo is the global leader in bonded and hot deformed magnetic powders, management expects Neo will grow in-line with the market.

In particular, electrification of automobiles has led to increased demand for smaller, more efficient micro motors using NdFeB magnets to reduce weight and improve efficiency. This is both true in developed markets, where certain luxury vehicles can have up to 100 micro motors, as well as in emerging markets, where cars are beginning to incorporate power seats, power doors, power windows, sensors and other features. The development of HEVs and EVs is also emerging as a key market trend as these vehicles tend to require significant numbers of micro motors and other rare earth content.

NdFeB magnets are used in a wide array of high-performance micro motors and sensors as well as in a variety of end markets including the automotive sector, HDDs and cloud computing, home appliances, residential circulation heating pumps and office automation. The emergence of clean energy applications has also opened up new end markets, including HEVs and EVs. These functional materials are highly specialized and in many cases uniquely engineered for a specific customer application. NdFeB hot deformed magnets, which have magnetic properties closer to sintered magnets, are used in electronic power steering and hybrid electric vehicle traction motors, as well as in factory automation robotics.

The graphic below illustrates an example of the relative size and weight advantage of a bonded NdFeB magnet motor versus ferrite magnet motor in an automotive seat motor application. According to management estimates, NdFeB motors are approximately 40% lighter, with improved efficiency and performance while reducing motor length by greater than 25%. These comparative size advantages are amplified in the motor vehicle context, where there are over 40 such micro motors in a typical vehicle and over 100 such motors in some luxury models, according to Roskill⁴. These smaller, lighter weight NdFeB micro motors are more energy efficient than their ferrite counterparts and enhance the overall fuel efficiency of the automobile.



Source: Management estimates

Catalyst Industry

Products engineered from REOs are used in the production of FCC catalysts for crude oil refining and in auto catalysts. According to Roskill⁵, estimated demand of REOs used in catalyst applications in 2016 was 29,000 tonnes with approximately 65 to 70% used for FCC catalysts and approximately 20 to 25% for auto catalysts. FCCs are a comparatively commoditized product, while auto catalysts are a comparatively higher value, specialized product.

⁴ Roskill, *ibid.*

⁵ Roskill, *ibid.*

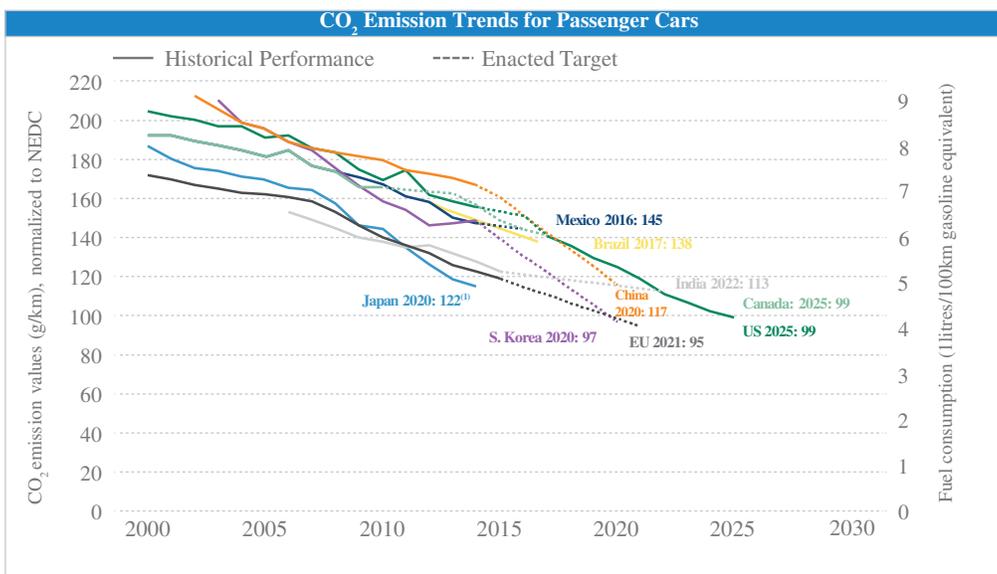
Management believes that Neo is a top three global producer of rare earth-based functional materials used in auto catalyst applications. REOs are ideal inputs for engineered auto catalyst solutions as the thermal stability provided by REEs enhances the performance and extends the durability of the catalyst, allowing it to operate more efficiently at high temperatures. These functional materials are highly specialized and vary from customer to customer, uniquely engineered depending on their requirements. Developing auto catalyst applications requires close collaboration with

Management believes that Neo is a top three global producer of rare earth-based functional materials used in auto catalyst applications. REOs are ideal inputs for engineered auto catalyst solutions as the thermal stability provided by REEs enhances the performance and extends the durability of the catalyst, allowing it to operate more efficiently at high temperatures. These functional materials are highly specialized and vary from customer to customer, uniquely engineered depending on their requirements. Developing auto catalyst applications requires close collaboration with customers and long lead times, providing existing producers with a competitive advantage. In some cases, these lead times can be over three years due to the testing and qualification processes required by customers. Neo is a qualified supplier to all of the leading manufacturers of auto catalysts who supply all of the leading OEMs.

Complex auto catalysts use a combination of rare earth-based functional materials and PGMs to minimize and control exhaust emissions. Rare earth-based functional materials provide thermal stability that augments the catalytic activity of PGMs. Umicore, Johnson Matthey, BASF and Cataler Corporation (“Cataler”) are the leading global manufacturers of these complex auto catalysts and are customers of Neo.

Tightening air emission standards are a significant driver of growth in the industry. For example, both China and India are adopting E.U. emission standards V and VI. These E.U. standards define the acceptable limits for exhaust emissions of new vehicles sold in the E.U. and EEA member states. The emission standards are defined in a series of E.U. directives staging the progressive introduction of increasingly stringent standards.

The chart below provides an overview of anticipated government regulation of air emissions, based on data compiled by the International Council of Clean Transportation⁶, an independent non-profit organization that provides technical and scientific analysis to environmental regulators. The new European driving cycle (“NEDC”) is a driving cycle designed to assess the emission levels of car engines and fuel economy in passenger cars (which excludes light trucks and commercial vehicles). Management believes that increasingly complex catalyst innovations will be required for auto catalyst manufacturers to comply with stricter emission standards. This in turn requires companies like Neo to innovate new technologies and develop new functional materials in collaboration with auto catalyst manufacturers to meet expected demand.



Source: The International Council of Clean Transportation

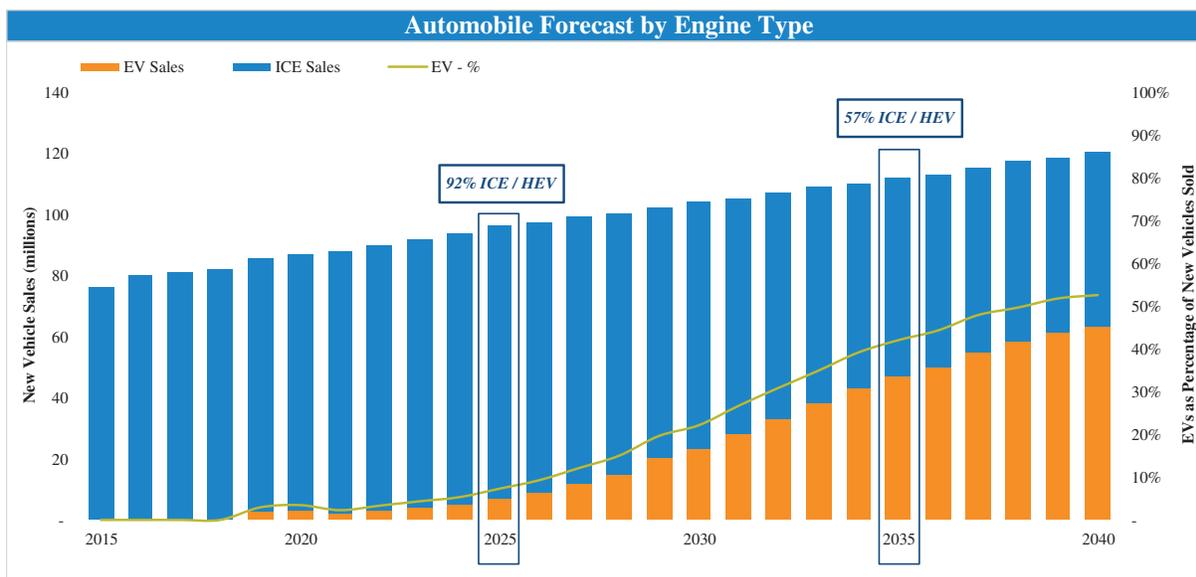
Note:

(1) Japan has already met its 2020 statutory targets as of 2013.

⁶ International Council for Clean Transportation, Light-Duty Vehicle Greenhouse Gas and Fuel Economy Standards (2017 Global Update).

Continued Reliance on Combustion Engines in Hybrid Electric Vehicles

Stricter emission regulations, lower battery costs, widely available charging stations and increasing consumer acceptance are expected to drive strong momentum for the increased penetration of electrified vehicles (hybrid, plug-in, battery electric and fuel cell). However, it is important to note that a large portion of electric vehicles include hybrid electric vehicles, which utilize a combination of ICEs and batteries. According to Bloomberg⁷, 92% of new vehicle sales will include ICEs (including HEVs) in 2025 and 57% of new vehicle sales will include ICEs (including HEVs) in 2035. This means that in 2035, approximately 65 million new vehicle sales will still include ICEs. As a result, it is expected that demand for auto catalysts will remain strong for the foreseeable future.



Source: Bloomberg New Energy Finance

Complex Auto Catalyst Growth

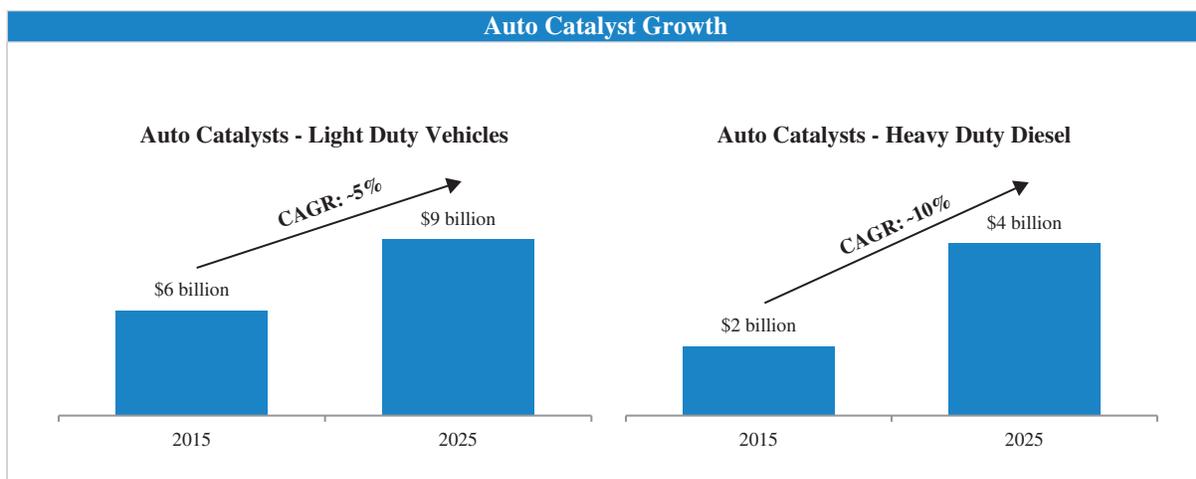
Umicore⁸ highlights stricter government regulations as the key driver of global emission-control catalysts, leading to market growth for complex auto catalysts of a 7.8% CAGR from 2015 to 2020. The highest growth regions are expected to be emerging markets such as China (24.6% CAGR) and India (28.9% CAGR). According to Johnson Matthey⁹, growing demand for complex auto catalysts will be driven by increasing numbers of vehicles (including HEVs), and stricter regulations. Johnson Matthey¹⁰, anticipates market growth of approximately 5% per year from 2015 to 2025 for light duty vehicles and approximately 10% per year for heavy duty diesel over the same period.

⁷ Bloomberg, Electric Vehicle Outlook 2017 – Annual Long-Term Forecast of the World Electric Vehicle Markets (July 2017).

⁸ Umicore, Capital Markets Day (September 2, 2015).

⁹ Johnson Matthey, Presentation for Analysts / Investors - Johnson Matthey and the Evolving Powertrain (February 4, 2016).

¹⁰ Johnson Matthey, *ibid.*



Source: Johnson Matthey

Rare Earth Separation and Processing Industry

REEs are comprised of specific chemical elements of the periodic table that share similar properties and are often found together in the same geological deposits. These elements are seldom found in high grade, discrete ore bodies and thus are often exploited as by-products of a mine. REE deposits are found in many parts of the world but are predominantly located in China, which currently supplies approximately 87% of the global market according to Roskill¹¹. Neo is the only non-Chinese licensed separator in China and focuses on separating specialty rare earth materials, specifically engineered for use by manufacturers of end products including permanent magnets, catalysts, ceramics, polishing, batteries, glass additives, metallurgy and phosphors, among others.

Neo's rare earth separation and processing business generates consistent profits, protected by competitive advantages including strategic positioning as the only non-Chinese separator of rare earths in China. In addition, it provides strategic benefits to Neo's higher value operations, including enhanced technical expertise and know-how to innovate new functional materials and a degree of vertical integration for C&O and Magnequench. Rare earth separation is a relatively small part of Neo's business and provides valuable vertical integration benefits. Historically, Neo's expertise in rare earth separation has acted as a launchpad for new uses and applications, such as Neo's entry into the auto catalyst market, and more recently, through the development of wastewater treatment applications. Furthermore, it provides a degree of vertical integration for the manufacture of Neo's high-value magnetic and catalyst powders.

According to Roskill¹², global demand for REOs was estimated to have been 123,200 tonnes in 2016 with China accounting for 85,100 tonnes or 69%. Global demand for REOs is forecast to grow at a 5.7% CAGR from 123,200 tonnes in 2016 to 162,600 tonnes in 2021. The two main reasons cited for this high market growth rate include increased demand for NdFeB permanent magnets and continued growth in the catalysts sector, which are key markets for Neo.

Roskill¹³ anticipates rare earths used in permanent magnets to be the highest growth application for REOs, with a forecasted CAGR of 10.1%, increasing from an estimated 28,400 tonnes in 2016 to 46,000 tonnes in 2021. This growth will be driven by increased demand for small size NdFeB magnets used in consumer electronics, home appliances and automotive applications. Rare earths used in catalyst applications are forecast to grow at a 5.1% CAGR, increasing from an estimated 29,000 tonnes in 2016 to 37,200 tonnes in 2021. Demand for catalysts will be driven primarily by the automotive sector, with the introduction of stricter global controls on vehicle emissions as governments attempt to reduce greenhouse gases.

¹¹ Roskill, *ibid.*

¹² Roskill, *ibid.*

¹³ Roskill, *ibid.*

Global REOs Demand by Application

(in tonnes, unless otherwise noted)

Application	Main REEs	2016	2021	CAGR
Permanent Magnets . . .	Nd, Pr, Dy, Tb	28,400	46,000	10.1%
Catalysts	La, Ce, Pr, Nd	29,000	37,200	5.1%
Polishing	Ce, La, Pr, Nd, Gd, Er, Ho	14,700	16,400	2.2%
Batteries	La, Ce	10,000	12,300	4.2%
Glass Additives	Ce, La, Pr, Nd, Gd, Er, Ho	9,200	11,300	4.2%
Metallurgy	La, Ce, Pr, Nd, Y	9,700	10,400	1.4%
Ceramics	La, Ce, Pr, Nd, Y, Eu, Gd, Lu, Dy	7,500	9,400	4.6%
Phosphors	Eu, Y, Tb, Nd, Er, Gd (Ce, Pr)	2,800	2,200	(4.7%)
Other	Nd, Pr, Dy, Tb, Eu, Y, La, Lu, Sc, Sm, Gd, Ce, Er	11,900	17,400	7.9%
Total		123,200	162,600	5.7%

Source: Roskill, *ibid*.

Note: Boxed area denotes Neo's current focus markets

Note: Ce = Cerium, Dy = Dysprosium, Er = Erbium, Eu = Europium, Gd = Gadolinium, Ho = Holmium, La = Lanthanum, Lu = Lutetium, Nd = Neodymium, Pr = Praseodymium, Sc = Scandium, Sm = Samarium, Tb = Terbium, Y = Yttrium, Yb = Ytterbium

Rare Metals

Rare metals provide functional benefits similar to rare earths, such as mechanical strength, resistance to thermal creep deformation, strong surface stability and resistance to corrosion and oxidation. Neo is able to leverage end use functionality and customer relationships across both REO and rare metal applications, and over time, depending on end use technological advancements, certain functional benefits may transition from reliance on REOs to reliance on rare metals, and vice versa. Rare metals typically occur naturally in low concentrations, and as such are not mined directly but rather recovered as by-products primarily from copper and zinc mines. The term rare metals typically include tantalum, niobium, gallium, hafnium, rhenium, indium, germanium, manganese, tellurium, lithium and cobalt.

Neo produces a variety of these rare metals through its Rare Metals segment, with a primary focus on high-purity tantalum, niobium, gallium and hafnium. Due primarily to their superconductivity and use as additives to steel and superalloys, demand for tantalum and niobium has increased in recent years, driven by the growth in consumer electronics, metal construction materials, aerospace applications and healthcare applications. Demand for high-purity gallium has been driven by the growing LED market, as demand shifts away from traditional incandescent lighting (reinforced by legislation in the E.U., the U.S. and Canada, among other jurisdictions), as well as the electronics market, due to gallium's use in semiconductors and wireless devices.

Tantalum

The electronics industry is by far the largest tantalum consumer, using tantalum powder and wire in the manufacture of capacitors, which are used to store electrical energy in electric circuits. Technology has facilitated a shift toward the miniaturization of electronic equipment, which has driven the demand for tantalum-based capacitors in space-sensitive and high-end applications, including smartphones and storage devices. Neo focuses on alloy additives which are the next largest market, with most consumption driven by superalloys. Superalloys are high-performance alloys that exhibit excellent mechanical strength, resistance to thermal creep deformation, strong surface stability and resistance to corrosion or oxidation. These properties make them well-suited for use in aerospace applications, which is Neo's primary focus within the tantalum market.

Niobium

The steel industry is by far the largest consumer of ferro-niobium, which is also known as standard-grade niobium. It is mainly used in advanced high strength microalloy, stainless and heat-resisting steels. These have a variety of applications such as gas pipelines, automotive components and construction. Ferro-niobium is added in the steel making process to improve mechanical and high temperature strength and toughness, as well as to enhance resistance to corrosion. Smaller but higher value uses targeted by Neo include medical applications such as magnetic resonance imaging ("MRI") machines, which benefit from the superconductive properties of niobium, and the aerospace industry, which utilizes niobium-based superalloys. Neo focuses on these more specialized applications, producing niobium oxide powder and pure niobium ingots for use in medical imaging and aerospace applications.

Gallium

Gallium is primarily used in three forms: gallium arsenide, gallium nitride and gallium trichloride. Neo is the global market leader for GaCl₃, a key input for LEDs, and is one of only two major producers globally. Demand for gallium has been driven by the electronic and optoelectronic industries. In the electronic industry, demand has been driven by consumer appetite for smartphones and multi-band, multimode handsets. In the optoelectronics industry, demand has been driven by LEDs for lighting and flat panel displays, especially televisions. Japan, South Korea and China are the world's leading gallium consumers due to their role in the manufacture of compound semiconductors.

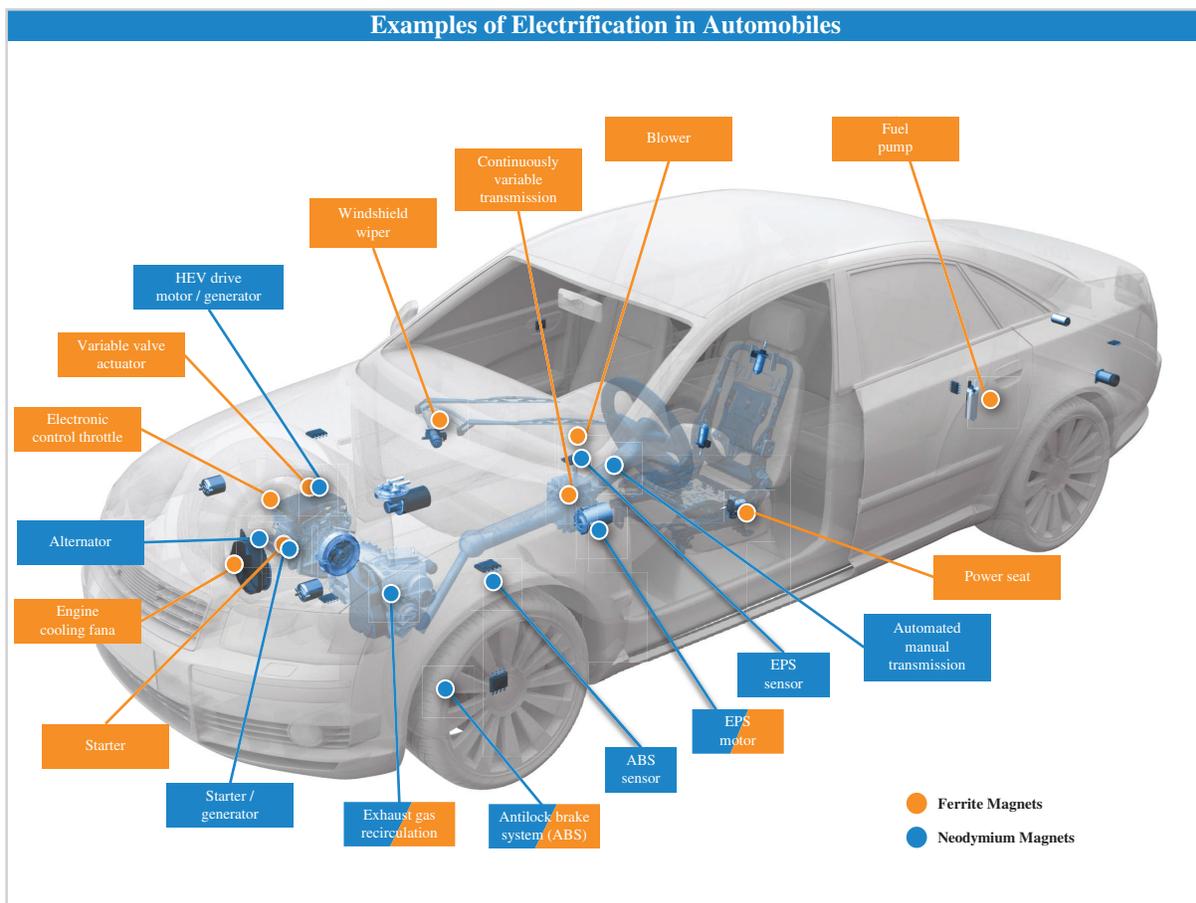
Hafnium

Hafnium and its alloys are excellent at absorbing neutrons and providing thermal stability and corrosion resistance, making them ideal inputs for control rods used in nuclear reactors and nuclear submarines. Hafnium is also used in high temperature alloys and ceramics, due to the extremely high melting points of hafnium-based compounds. Neo's primary focus is on these specialized, alloy- and ceramic-based applications. Hafnium has been successfully alloyed with several metals including iron, nickel, titanium and niobium.

Industry Growth Trends Impacting Neo

Electrification of Automobiles

Improving technology in the automotive industry has led to increased demand for smaller, more efficient micro motors used in applications such as power steering, power windows, electronically-driven fuel and water pumps and power seats, as well as more visual components such as high-definition screens and LEDs, each of which require functional materials based on REE and/or rare metals. For vehicles that require a large number of motors per application, ferrite magnets become impractical due to their large size and relative inefficiency, leading to a substitution effect toward bonded and hot deformed magnets. In addition, HEVs, which are becoming more prominent, require growing amounts of REEs for bonded and sintered magnets which are used in traction motors and other small electronic devices. Further, both HEVs and EVs, which require traction motors and an increasing number of micro motors, rely on rare earth magnets for efficiency. As an example, the load on the drive belt needs to be reduced in HEVs, resulting in a move to higher efficiency motors that use rare earth magnets. In EVs, which do not use a drive belt at all, the motor relies on rare earth magnets for power generation.



Source: Management

Global Adoption of Increasingly Stringent Air and Water Emission Standards

An increasing number of governments are committing to the reduction of carbon emissions, which has led to an increased demand for advanced, high quality auto catalysts. The largest markets for auto catalysts are North America, Europe and Japan, however demand in China, India and the rest of the world is increasing due to increasingly stringent environmental standards. These standards, in turn, require advanced continued innovation of advanced REE materials use.

Government regulations, specifically in North America and Europe, have become more stringent with respect to the allowable amount of phosphorus in wastewater discharge. REE-based functional materials for controlling phosphorus in wastewater treatment systems are gaining traction in the municipal and industrial wastewater treatment centres in the United States where low phosphorus limits are required.

Consumer Demand for Lighter, Smaller, Smarter Electronic Devices

As consumers demand more efficient, smaller and lighter electronics including handheld devices, the market demand for smaller, more powerful NdFeB magnets will increase. The use of rare earths in permanent magnets enables reductions in size, weight and increased energy efficiency relative to iron-based ferrite magnets, which are the most common permanent magnet material.

Growth in Automation

Management believes that the increased prevalence of AI and automation (home, office, automotive and industrial) is expected to support long-term demand for innovative rare earth-based engineered functional materials. This demand will be supported by NdFeB micro motors for robotics and other potential applications that require automated movement, as well as increased demand for cloud computing and data storage solutions. Some examples include:

- **Robotics:** Historically, the replacement of physical labour by machines started with tasks that required a narrow repertoire of movements. AI is now gradually expanding the domain of physical automation by helping with less routine tasks that involve some degree of dexterity, planning, sensing and interaction. In order to accomplish this, smaller micro motors using NdFeB magnets will be required. Much of the progress made in this area comes under the umbrella of robotics, which management believes makes up a small but fast-growing part of the wider automation market. According to UBS AG¹⁴, in 2015, industrial robots represented an \$11 billion market or 10% of the wider automation market.
- **Autonomous Vehicles:** AI will also be used in a variety of functions in autonomous vehicles such as sensor fusion, computer vision, natural language processing and object recognition to enable fully autonomous driving. These functions will rely heavily on sensors and micro motors enabled by NdFeB magnets, thus continuing to drive demand of these magnets for use in automobiles. For example, Oppenheimer Equity Research states that an autonomous vehicle will have over 20 sensors (i.e. camera, lidar and radar) on multiple points of the vehicle to facilitate communication within the vehicle and among other vehicles on the road.
- **Cloud Computing:** Demand for data centres capable of handling the vast quantities of data stored through cloud-based services is expected to increase. Cloud providers are turning to data centre companies to lease the infrastructure needed to satisfy the demand. HDDs, which use NdFeB magnets, remain the preferred form of data storage device for data centre providers due to their relatively lower cost and ability to facilitate data recovery.

Rising Demand for Superalloys

Superalloys are high performance alloys that exhibit excellent mechanical strength, resistance to thermal creep deformation, strong surface stability and resistance to corrosion or oxidation. As a result, superalloys are commonly used in aerospace applications.

According to Boeing¹⁵, passenger travel growth in the global aviation industry has had a 6.2% CAGR for the past five years. Demand for rare metals in aerospace applications is likely to increase at a faster rate than the industry as a whole, driven by the global effort to reduce carbon dioxide and energy usage. This has led to the development of new technologies that deliver weight reduction, decrease fuel consumption and reduce emissions. As a producer of pure metals and alloys for high performance jet engines, Neo is well positioned to capitalize on this trend.

DESCRIPTION OF THE BUSINESS

Overview of the Business of Neo Cayman

Neo has established itself as a global leader involved in the innovation, development, processing and manufacturing of rare earth- and rare metal-based functional materials, which are essential inputs to high technology, high growth, future-facing industries. Neo works in close collaboration with its customers to engineer and develop new materials, which requires exacting chemical, physical and metallurgical processing to target specific morphology, crystal structure, chemical composition and purity to enhance functionality. Neo's advanced processing and manufacturing facilities are strategically diversified across three continents and are able to produce some of the highest performance rare earth- and rare metal-based engineered functional materials globally – meeting customers' precise product specifications.

¹⁴ UBS AG, Research Report: Q-Series® - How Disruptive will the New Dawn of Artificial Intelligence Be? (November 15, 2015).

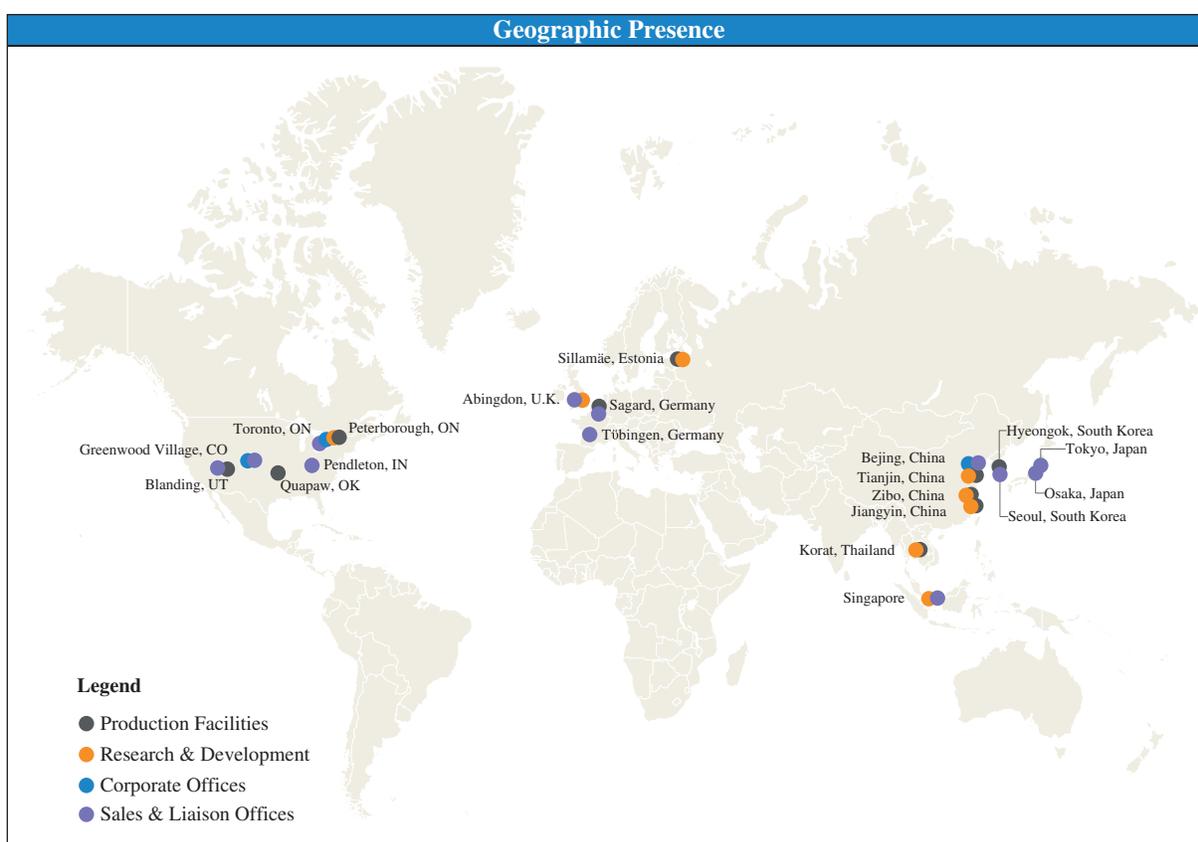
¹⁵ Boeing, *ibid.*

Neo’s unique technical expertise and strategic geographic presence has allowed Neo to become an industry leader in key markets with a proven, consistent product offering. This, combined with long-term collaborative customer relationships, creates significant barriers to entry.

Innovation has always been a key driver for Neo’s business. As an industry leader, Neo invests significant resources to improve the efficiency of its processing operations and to research and develop new rare earth– and rare metal-based materials. Neo employs these advanced processes and technologies to drive new product development with globally competitive costs and margins.

Neo’s products are used in numerous end use applications including micro motors, traction motors, auto catalysts, water emission-controls, healthcare (such as medical imaging), aerospace, clean energy technologies (such as HEVs and EVs), consumer electronics (such as smartphones and tablets), fibre optics, HDDs and a number of other applications.

Neo has a global platform with manufacturing, R&D and sales offices in China, South Korea, Thailand, Japan, Singapore, Germany, Estonia, Canada, U.K. and the U.S., which are strategically located in close proximity to customers and end users.



Neo’s business is organized into three operating business segments (Magnequench, C&O and Rare Metals) as well as a corporate segment. Each segment is run on a standalone basis under the leadership of a business segment head. These segments are responsible for their own production, R&D, sales and marketing and raw materials procurement. The segments benefit from common ownership as a result of Neo’s global platform, options for raw material sourcing, opportunities to share intellectual property and best practices, and the ability to cross-sell to certain customers.

Magnequench

The Magnequench segment, with over thirty years of manufacturing experience, is the world leader in the production of magnetic powders used in bonded and hot deformed fully dense NdFeB magnets. These powders are formed through Magnequench's market-leading technology related to the development, processing and manufacturing of magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of REOs as the primary input. These powders are used in the production of bonded permanent magnets that are components in automotive motors, micro motors, traction motors, sensors and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

Chemicals & Oxides

The C&O segment manufactures and distributes a broad range of light and heavy rare earth functional materials that have become an indispensable part of modern life. Neo's world-class rare earth processing and materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered materials. Applications from these products include auto catalysts, consumer electronics, petroleum refining, hybrid and electric vehicles and wastewater treatment.

Rare Metals

The Rare Metals segment sources, produces, reclaims, refines and markets high value metals and their compounds. These products include both high temperature metals (tantalum, niobium, hafnium and rhenium) and electronic metals (gallium and indium). Applications from products made in this segment primarily include superalloys for jet engines, medical imaging, wireless technologies and LED lighting. Other applications include their use in flat panel displays, solar, steel additives, batteries and electronics applications.

Corporate

Neo's head office is in Toronto, Ontario, Canada, with additional corporate offices in Greenwood, Colorado, U.S. and Beijing, China. The functions of this group include finance, administration, information technology, accounting and legal.

Neo Business Segment Overview

	 neo <i>Magnequench</i>	 neo <i>Chemicals & Oxides</i>	 neo <i>Rare Metals</i>	
Principal Activity	<ul style="list-style-type: none"> • Producer of rare earth magnetic powders for bonded and hot deformed fully dense NdFeB magnets 	<ul style="list-style-type: none"> • Separator and processor of rare earth concentrate into functional materials 	<ul style="list-style-type: none"> • Producer, reclaimer, refiner and marketer of high-value rare metals and their compounds 	<ul style="list-style-type: none"> • Finance, administration, IT, accounting and legal
Products	<ul style="list-style-type: none"> • Magnetic powders (Magnequench Powders) 	<ul style="list-style-type: none"> • Separated rare earths • Rare earth based engineered materials 	<ul style="list-style-type: none"> • Rare metals such as tantalum, niobium, gallium, hafnium, rhenium and indium 	
Applications	<ul style="list-style-type: none"> • Automotive motors • Traction motors • Micro motors • Sensors 	<ul style="list-style-type: none"> • Auto catalysts • Consumer electronics • Magnets • Wastewater treatment 	<ul style="list-style-type: none"> • Superalloys for jet engines • Medical imaging • Wireless technologies • LED lighting 	
Facilities	<ul style="list-style-type: none"> • Tianjin, China • Korat, Thailand 	<ul style="list-style-type: none"> • Zibo, China • Sillamäe, Estonia • Jiangyin, China 	<ul style="list-style-type: none"> • Sillamäe, Estonia • Hyeongok, South Korea • Sagard, Germany • Peterborough, ON Canada • Quawpaw, OK, U.S. • Blanding, UT, U.S. 	<ul style="list-style-type: none"> • Toronto head office • Regional corporate offices

Key Financials

(U.S.\$ millions)

LTM revenue	\$171.5	\$170.1	\$74.5	(\$12.1) ⁽²⁾
% of total ⁽¹⁾	41%	41%	18%	—
LTM operating income (loss) . . .	\$29.4	\$10.3	(\$3.7)	(\$23.2)
LTM operating margin	17.1%	6.0%	(5.0%)	n.m.
LTM Adjusted OIBDA ⁽³⁾	\$45.9	\$30.0	\$6.3	(\$18.8)
LTM Adjusted OIBDA Margin ⁽³⁾	26.7%	17.6%	8.4%	n.m.

Notes:

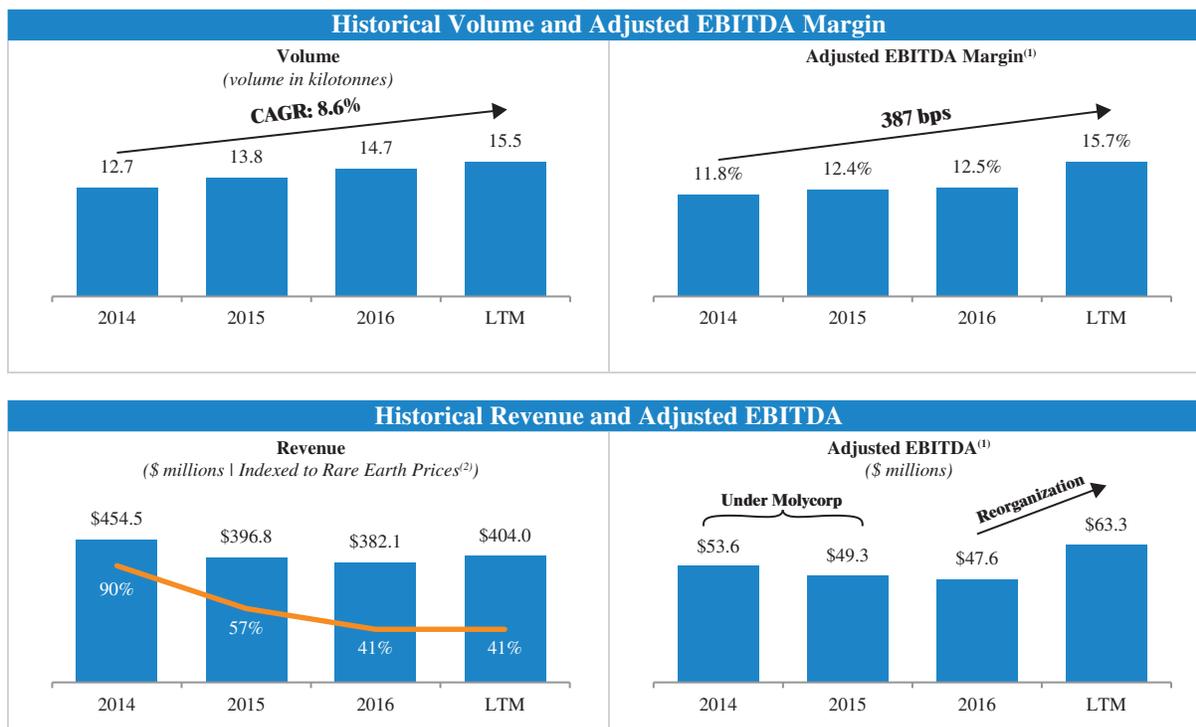
(1) Percentages shown before inter-segment revenue eliminations.

(2) Represents inter-segment revenue eliminations.

(3) For the reconciliation of Adjusted OIBDA and Adjusted OIBDA Margin to operating income and operating margin, see “Selected Financial Information” and “Management’s Discussion and Analysis – Non-IFRS Financial Measures”.

Financial Summary

For the twelve month period ended June 30, 2017, Neo had \$404.0 million in revenue and \$63.3 million in Adjusted EBITDA, achieving an Adjusted EBITDA Margin of 15.7%. Neo has been able to increase its volumes each period since 2014 but realized a decrease in revenue in 2015 and 2016 due to a decrease in underlying commodity prices and average selling prices. Despite this decline in prices, Neo has been able to grow its Adjusted EBITDA Margins over the same period as Neo's pricing strategy allows Neo to pass through underlying commodity price fluctuations to its customers. As a result, Neo is able to maintain margins over the long-term, partially mitigating the risk of input price volatility.



(1) For the reconciliation of Adjusted EBITDA and Adjusted EBITDA Margin to net income, see "Selected Financial Information" and "Management's Discussion and Analysis – Non-IFRS Financial Measures".

(2) Average rare earth prices calculated monthly and indexed to 100% as of January 1, 2014.

Investment Highlights

Neo has established itself as a global leader in the development, processing and manufacturing of rare earth- and rare metal-based functional materials, specifically designed in collaboration with its customers. Neo has a unique combination of competitive advantages that are not easily replicated.

Global Leader in Growing Specialty Markets

Neo holds leading market positions in many of the key specialty markets it serves, including bonded magnetic powders, auto catalysts, rare earth separation and specialty alloys and rare metals.

- Bonded Magnetic Powders:** Neo is the leading global producer of high-performance rare earth magnetic powders used in NdFeB bonded magnets through its propriety technology related to the development, processing and manufacturing of Magnequench Powders. Neo has over 30 years of experience developing magnetic powders and utilizing industry-leading technology to deliver consistent, high quality, tailored products to meet its customers' demands. As an industry leader with an estimated 70 to 75% market share, Neo serves as the market benchmark and acts as a pioneer in technology and quality.
- Auto Catalysts:** Over the past two years, management believes that it has grown materially to be one of the top three suppliers to auto catalyst end markets. More stringent environmental regulation will increase demand for key REEs that are used in auto catalysts to reduce emissions. In addition, auto catalyst manufacturers are trying to reduce the proportion of higher cost PGMs used in auto catalysts by using higher

volumes or more efficient formulations of rare earths. Neo's expertise in working with its customers to engineer these materials positions it well to capitalize on this growth. Neo is a qualified supplier to all leading manufacturers of auto catalysts who supply all of the leading OEMs. Being a qualified supplier incentivizes Neo's customers to continue to source materials from Neo, as it is difficult to switch and requalify a new supplier.

- **Rare Earth Separation:** Neo is a pioneer in separating, processing, developing and manufacturing functional materials for a diverse range of applications. Examples of these specialized materials include products used for phosphate removal in wastewater treatment systems and components used in advanced electronics. Neo has a distinct competitive advantage as it is the only non-Chinese company with a license to separate REEs in China, where it has been operating since 1994. This vertical integration gives Neo local access to the majority of global rare earth supply, while also reducing overall costs. It also benefits from a strategic non-Chinese source of supply from Russia, which is processed at Neo's facility in Estonia, providing global scale and geographic diversity.
- **Specialty Alloys and Rare Metals:** Neo is a leading global producer of advanced functional materials made from rare metals for applications in jet engines (superalloys), medical imaging, wireless technologies, LED lighting, flat panel displays, solar panels and batteries, among others. For example, Neo is the #1 global producer of GaCl₃, where Neo is one of only two major producers globally. GaCl₃ is widely used in the compound semiconductor, LED and aerospace industries.

Growing End Markets with Exposure to Key Growth Trends

Neo is a critical player integrated within its customers' product development cycles and global supply chains across diverse end markets, and is positioned to participate in several growth sectors driven by favourable trends. These trends include the electrification of automobiles, global adoption of increasingly stringent air and water emission standards, consumer demand for lighter, smaller, smarter electronic devices, growth in automation and rising demand for superalloys in aerospace.

Unique Global Infrastructure Platform with State of the Art R&D Capabilities

Neo's global infrastructure, including its manufacturing and sales network, provide it with a unique competitive advantage in the industry. Neo's engineering and manufacturing expertise, combined with best-in-class production facilities, are located in cost-competitive jurisdictions. Neo currently owns 10 production facilities in China, South Korea, Thailand, Germany, Estonia, Canada and the U.S. which are strategically located in close proximity to its customers and end markets.

Neo has a global sales force with 12 sales offices around the world, and employs some of the world's leading experts in their respective fields, enabling Neo to provide the technical expertise required to fulfil its customers' needs. In addition, Neo owns and operates eight dedicated R&D facilities across three continents, with two standalone R&D facilities in Singapore and Abingdon, U.K., and six co-located within Neo's production facilities. These facilities work directly with customers and are an integral aspect of these customers' product development cycles, working to create specialized materials customized to meet each of their unique requirements.

Longstanding Relationships with Leading Global Customer Base

Neo services a high-quality, market-leading, sophisticated customer base with whom it has nurtured longstanding relationships. This balanced customer base is well-diversified and includes large industrial businesses, consumer electronics manufacturers and chemical processing businesses, including Fortune 500 companies. A significant portion of Neo's revenue comes from customers who have been with Neo for over 10 years. Neo has been able to maintain these longstanding relationships, even through the MolyCorp bankruptcy, as it provides significant value to its customers by co-developing advanced, tailor-made materials based on their needs. Customers value Neo's global manufacturing platform as a key differentiator due to the ability to source materials from both inside and outside of China, further reducing supply risk and ensuring timely deliveries. Neo's top 15 customers accounted for approximately 67% of its total revenue in 2016. Representative longstanding customers include Chengdu Galaxy Magnets Co., Ltd., H.C. Starck, BASF, Daido Electronics, Johnson Matthey, Panasonic, Samsung, Umicore, AkzoNobel, Bosch, LG and Philips.

Strong Profitability, Cash Flow and Financial Position

- ***Profitability:*** Neo has a track record of consistent, profitable growth, supported by favourable industry trends and through dedication to quality and its ability to customize products to fit its customers' specific needs. Neo has successfully increased Adjusted EBITDA Margins by 387 bps from 2014 through June 30, 2017, partially mitigating its risk to commodity rare earth and rare metal price changes. Neo's global presence and integrated position in their customers' supply chain allow Neo to maintain its operating margins over the long-term. These strong margins are consistently achieved through a high proportion of variable costs (approximately 80% of costs of goods sold), combined with the ability to pass a significant portion of the fluctuations in raw material costs through to its customers. Furthermore, diversity of applications and customers protects Neo's market share and helps to insulate Neo from cyclical and counterparty risk. This gives Neo a competitive advantage and allows Neo to maintain strong and improving margins in a competitive market.
- ***Cash Flow:*** Neo generates strong cash flow with low maintenance capital expenditures leading to LTM Free Cash Flow conversion of 86.9% as a result of its focus on specialized, higher-margin products. This, combined with a continued focus on cost reduction and productivity escalation, is driving incremental margin and cash flow improvements. Neo's current infrastructure has the ability to scale through modest incremental capital spending. As a result, Neo's total capital expenditure requirements are anticipated to be approximately \$8-15 million per year.
- ***Financial Position:*** Neo emerged from the Molycorp bankruptcy process in a strong financial position. Neo maintained positive cash flow generation throughout the process and as of June 30, 2017 had approximately \$78 million in cash on the balance sheet, no debt outstanding and an undrawn working capital facility of \$15.4 million to provide liquidity. Neo Cayman has declared a pre-Offering dividend of approximately \$25.0 million. Following the payment of such dividend, Neo's September 30, 2017 pro forma cash balance would have been approximately \$88.1 million.

Proven Management Team with Exceptional Track Record

Neo's senior management team is comprised of a number of industry veterans, with the knowledge, vision and expertise to deliver results. The majority of this management team was with Neo when it was a public company, before the Molycorp Acquisition. The management team is comprised of industry leaders with a combined 200+ years of experience. Management has developed strong, longstanding relationships with customers allowing them to provide insights into customers' operations. Over the course of their tenure, management has demonstrated a focus on free cash flow generation with a track record of successfully reallocating capital into new growth opportunities.

Business Strategy

Neo aims to strengthen and expand its position as a premium operator in the REE and rare metal processing industry by focusing on highly engineered, functional materials and innovative collaboration with customers, while maintaining strong operating margins and pursuing multiple growth avenues.

Focused on Highly Engineered, Functional Materials

Neo specifically engineers proprietary products, tailored to its customers' unique applications. By focusing on highly engineered functional REE and rare metal materials, Neo is able to differentiate itself from domestic Chinese processors, who focus primarily on separation, a relatively commoditized process. Neo's status as the only non-Chinese operator permitted to separate REEs in China provides sustainable competitive advantages over other international producers. This combination of targeting customers who require highly tailored functional materials, while benefitting from local sourcing and production, allows Neo to produce premium materials at a relatively low cost and offer its products to its customers at competitive prices.

Innovation Partner for Customers

Neo has always strived to foster collaborative relationships with its customers. To that end, Neo has established joint innovation efforts, which serves to enhance the alignment between Neo's R&D efforts and its customers'

changing demands. Neo's customer-centric business model mitigates the risk of changes in REE or rare metal applications, as it keeps Neo close enough to its customers to anticipate their changing demands. For example, Neo has been at the forefront of the development process for NdFeB magnets used in EV main motors and HEV traction motors, working in collaboration with several of its key customers. In 2010, one of Neo's largest customers, a major magnet producer, Daido, developed a new hot deformation process that could produce magnet shapes preferred by HEV and EV motor designers. In 2011, Daido asked Neo to develop an MQU powder that produced higher magnet strength and was more amenable to hot deformation. Daido approached a leading automotive manufacturer, Honda, with the idea of using the new technology to produce magnets for HEV traction motors. In mid-2015, after a period of developing and evaluating hundreds of unique samples, this new MQU powder was completed. Both Daido and Honda publicly announced the HREE-free traction motor in July 2016, with production commencing that year. This culminated a successful period of collaboration among Neo, Daido and Honda and provides Neo with an exciting growth opportunity to leverage increasing demand for HEVs.

Managing Volatility of Underlying Commodity Prices

Neo's pricing mechanisms allow Neo to pass through underlying commodity price fluctuations, supporting stable margins over the long-term, independent of input price volatility. Neo focuses on continuous management of raw material costs, production costs and average selling prices over long-term pricing cycles. Neo's pricing strategy is supported by a flexible cost structure, with approximately 80% of costs of goods sold being variable.

Multiple Avenues for Growth

Management has a three-pronged strategy for growth including continued growth of existing products, growth from product development and growth through product portfolio expansion.

- ***Continued Growth from Existing Products:*** Neo is well positioned to supply materials into higher growth applications within broader magnetic, catalytic, electronic, healthcare and aerospace markets. Neo has a strong competitive position with high barriers to entry through the combination of longstanding customer relationships, product development and processing know-how, cost competitive manufacturing locations, global reach with direct sales channels and geographic diversification of REE manufacturing and raw material supply (inside and outside China). Neo's existing products provide compelling market share and market growth opportunities. For example, in the past three years, Neo has more than doubled its volume of auto catalyst sales and is now a top three supplier globally in the industry.
- ***Growth from Product Development:*** Neo works closely with customers to improve the performance of existing products as well as to develop new applications. Neo is currently working on materials for next generation applications including magnetic powders and auto catalysts. Neo is also active in identifying functional engineered materials for new end markets utilizing REEs and rare metals. Neo has a strong track record of collaborating with its customers, who rely on the unique functionality provided by REEs and rare metals. As a result, Neo does not typically lose customers, but works with customers to transition from old to new applications. This is demonstrated by the percentage of revenue derived from new products that did not exist five years ago, which management believes to be greater than 20% of consolidated revenue, primarily from longstanding customers.

New product development can take the form of (i) new products for existing markets (such as Neo's recent commercialization of its wastewater treatment initiative targeting municipal and industrial wastewater treatment facilities), or (ii) the evolution of existing products for new markets (such as Neo's supply of phosphors to the cathode ray tube television display market which has evolved to see Neo supply phosphors to new flat panel display technologies such as LCD, plasma and OLED displays). Neo's customer relationships help to facilitate this product innovation, as was the case in the development of Neo's MQU powder. Neo's work in partnership with Daido and Honda led to the commercialization of HREE-free traction motors, now an exciting new platform for future growth.

- ***Growth through Product Portfolio Expansion:*** Neo has a strong balance sheet and the financial flexibility to selectively pursue strategic acquisitions that provide product portfolio expansion, targeting companies or assets that would benefit from Neo's scale, global reach, high quality customer relationships, cost competitive facilities and product development skills and know-how. Neo has successfully integrated acquired assets such as the Silmet facility in Estonia from Molycorp and replicated its unique technologies

into new geographies, including taking gallium processing technology from its Oklahoma facility and successfully replicating it in its South Korea facility.

Management believes that its growth strategy will enable Neo to capitalize on key growth trends. To support this organic and development growth, Neo's total capital expenditures are expected to be in the range of \$8-15 million, with higher volumes achieved primarily through increased capacity utilization. As most of the critical infrastructure is currently in place, the capital expenditures required to expand capacity is primarily related to the purchase of machinery and equipment.

The below table shows the expected industry growth rates for each segment based on management estimates.

Industry Growth Trends						
Magnequench		Chemicals and Oxides		Rare Metals		
Auto	Non-Auto	Products	Magnetics & Molecules	Electronics & Specialty		
Applications	EPS Seat Motor Battery	HDD Automation	Auto-Catalysts Water Treatment	Magnetics Various	Superalloys Semiconductors LED lights on electronics	
	▪ Electrification, miniaturization and light-weighting of vehicles motors ▪ Improved motor capability	▪ Motor miniaturization	▪ Increased emissions regulations ▪ Growth of water treatment demand	▪ Motor miniaturization	▪ Alloy specialization ▪ Technical innovation in health care, defense, aerospace and electronics ▪ Overall digitization	
Growth Rate	~6-12%		~4-10%		~3-7%	

Magnequench Segment

Overview

The Magnequench segment, with over thirty years of manufacturing experience, is the world leader in the production of magnetic powders used in bonded and hot deformed fully dense NdFeB magnets. These powders are produced using Magnequench's market-leading technology related to the development, processing and manufacturing of magnetic powders. The manufacture of Magnequench Powder is a proprietary process using neodymium and praseodymium as the primary input. These powders are used in automotive motors, traction motors, micro motors, sensors and other applications requiring high levels of magnetic strength, improved performance and reduced size and weight.

Neodymium and/or praseodymium metal are the primary raw materials in Magnequench Powders. They are alloyed with iron and boron prior to being processed into a metal powder, which is the precursor to bonded and hot deformed NdFeB magnets. Other elements (such as zirconium or cobalt) are sometimes added to the alloy in small quantities to achieve certain characteristics.

During the powdering process, molten NdFeB is quenched via propulsion onto a cold surface, rapidly cooling the material and locking in the atomic configuration in a process known as melt spinning or jet casting. The material is then coarse ground and formed into a magnet using compression molding, injection molding, hot deformation, extruding or calendaring. After the desired shape has been achieved the resultant metal is then magnetized.

Products

Neo produces Magnequench Powders used in the production of both bonded and hot deformed NdFeB permanent magnets. Bonded magnets consist of magnetic powder combined with a binding agent, which results in a slight reduction of the magnetic strength of the material, but allows it to be formed into a variety of shapes without further processing. Hot deformed magnets do not require a binding agent, and are instead heated and pressed to form particular sizes and shapes. Approximately 75% of Magnequench's products are used in bonded magnets with the remainder used in hot deformed magnets.

Magnequench produces over 30 grades of Magnequench Powders, each with specific magnetic properties and performance characteristics to meet the needs of its customers. The powders cover a wide range of magnetic properties which have become the standard in the industry. Magnequench is continuously improving the magnetic characteristics of its powder in order to meet the constantly evolving technical demands of its customers.

Magnets produced using Magnequench Powders increase efficiency and enable reductions in the size and weight of motors relative to iron-based ferrite magnets, which are the most common permanent magnet material. These magnets also allow for net shape pressing, which provides greater flexibility to form a wide variety of shapes and sizes without further processing. These factors make magnets utilizing Magnequench Powders better suited for applications that require small sizes or complex shapes.

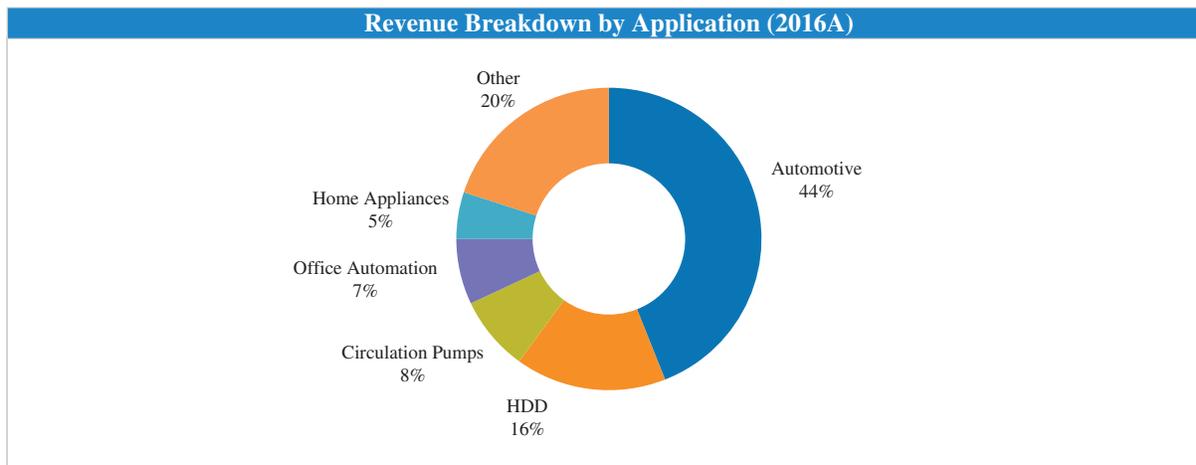
Magnequench is also focused on developing grades of material designed specifically for certain applications by improving the powder's physical or mechanical properties, such as thermal stability. Superior thermal stability is particularly important for magnets subjected to higher than room temperature environments. Such materials maintain their magnetic properties in these relatively high temperatures (such as under the hood of a car) and are also ideal for automotive applications, an area identified by Magnequench as a potential growth opportunity.

Applications

Magnequench Powders are ultimately incorporated into products that utilize NdFeB magnets for numerous end market applications. These products are primarily motors and sensors used in the automotive industry (i.e. power steering, seat adjustment, traction motors, fuel and water pumps, and steering position sensors), computer and office equipment (i.e. HDD and multifunction printers), home appliances (i.e. refrigerators and air conditioners), residential heating and cooling circulation pumps, consumer electronics (i.e. smartphones) and industrial applications (i.e. factory automation robotics).

For example, rare earth magnets are used in traction motors in hybrid and pure electric vehicles. They allow for greater energy efficiency by improving the precision of motor operations in automotive electronic power steering and improving the torque density of motors used in various automotive pump systems. Rare earth magnets also reduce overall vehicle weight, while the smaller size of the motors allows for increased functionality and comfort within the passenger compartment.

The combination of the magnetic intensity and manufacturability of bonded NdFeB magnets creates potential uses that cannot be economically achieved by other types of permanent magnets, an aspect that is expected to drive future growth.



Customers

Longstanding customer relationships position Magnequench to identify future uses for its products and capitalize on these trends by utilizing Neo’s global sales force and R&D capabilities. This is evident in the case of the HDD market segment, which was historically the primary end market for Magnequench Powders. As this market slowed, Magnequench was able to identify new automotive applications and maintain financial strength in the segment.

In 2016, Magnequench’s top 10 customers accounted for over 84% of total segment’s sales, with the largest customer accounting for approximately 36%. For example, longstanding customers of the Magnequench segment include Daido Electronics and Shanghai San Huan Magnets Co., Ltd., among others.

Sales and Marketing

Magnequench maintains a local sales force presence in all major geographic areas in which Neo operates in order to serve regional supply chains. There are a total of 17 people on the sales and marketing team. All of the frontline sales managers have technical backgrounds related to material science or to NdFeB magnetic materials which ensures immediate response to customers’ technical enquiries.

The sales group demonstrates the benefits of Neo’s products to customers and helps develop solutions for magnet makers and magnet users. This group is paired with a highly skilled applications team that leads technical marketing efforts.

Competition

Within the rare earth magnet industry, Magnequench is specifically focused on bonded and hot deformed magnets. Hot deformed magnets compete directly with sintered magnets, which are the most common form of rare earth magnet. Bonded magnets primarily compete with ferrite magnets. The market for bonded magnets is, in part, a result of end applications’ requirements to improve performance, while also reducing size and weight. Ferrite magnets are used in the majority of automotive seat motors. However, as automobile manufacturers increase the functionality of car seats, the number of motors in the seat proliferates, and smaller sizes of motors are often preferred to larger ferrite based motors. Sintered magnets, on the other hand, have higher magnetic properties and are found in applications without size or shape constraints. Sintered magnets, which compete directly with hot deformed magnets, are used in applications such as HEV traction motors and wind turbines. Within the ferrite magnet market, Neo primarily competes with TDK Corporation, Hitachi, Ltd. and Beijing General Research Institute of Metals & Metallurgy. Within the sintered magnet market, Neo primarily competes with ShinEtsu Chemical, Hitachi Metals, Ltd. and Beijing SanHuan New Material Hi-Tech, Ltd.

Prior to the expiration of patents protecting the production process of Magnequench Powders in 2014, management believed it accounted for approximately 90% of magnetic powders in the bonded and hot deformed magnetic powder market. Since the expiration those patents, according to management estimates, Magnequench's market share has stabilized at approximately 70 to 75% market share in the bonded NdFeB market. This modest decrease in market share in the face of increased competition post-patent expiration is a testament to the value that customers place on the quality product and technical expertise that Magnequench provides. The remainder of the market is primarily supplied by various Chinese producers. Within the hot deformed and bonded magnet markets, Neo primarily competes with Jiangwu Rare Metals New Material Co. Ltd. and Beijing Sanjili New Materials Co. Ltd.

Research and Development

Magnequench has industry-leading R&D facilities, enabling continued technical advancement as well as the expansion of the use of bonded and hot deformed NdFeB magnets in new end applications. The R&D group is comprised of a materials science team, a polymer development team, an applications technology team and a magnet business team.

Magnequench focuses on the rapid innovation of new compositions of its Magnequench Powders by leveraging its materials science and polymer development teams of 12 people in Singapore, Tianjin, China and Korat, Thailand. These teams design new powders to meet specific market needs, typically by modifying alloy compositions to alter the magnetic or mechanical attributes of the powder. Rapid sampling of new possible Magnequench Powder grades is carried out in Singapore on a lab scale and then transferred to the production facilities in China and Thailand. This team also leads the efforts to improve the understanding of fundamental Magnequench rapid quenching technology and then to push the boundaries of the NdFeB alloy system. The polymer development team modifies both the composition and the process of compounding metal powder with plastic binders, which enhances certain mechanical properties of the resultant magnets, enabling magnets to work in harsher environments without breakage or degradation of magnetic properties.

The applications technology team of 12 people works with motor manufacturers to design and optimize bonded NdFeB magnets for their applications. The team works closely with micro motor designers in order to take market share from ferrite and sintered, as well as improve the performance of existing micro motors. The applications technology team interacts closely with the materials science and magnet business teams to enable new applications for bonded NdFeB magnets. The cooperation between the R&D teams ensures that the latest Magnequench material, polymer, and magnet design developments are “designed in” at the beginning of the motor design phase. Current projects slated for this team in 2017 include several customer led initiatives to design and optimize motors used in seats and trunk lift assemblies for automobiles.

Magnequench's magnet business team develops and optimizes magnet designs to ensure their manufacturability and cost-performance. The magnet business team also makes magnet samples to prove the concepts of the designs developed by the applications technology team and motor manufacturers, thereby linking the various Magnequench R&D teams with the motor customers.

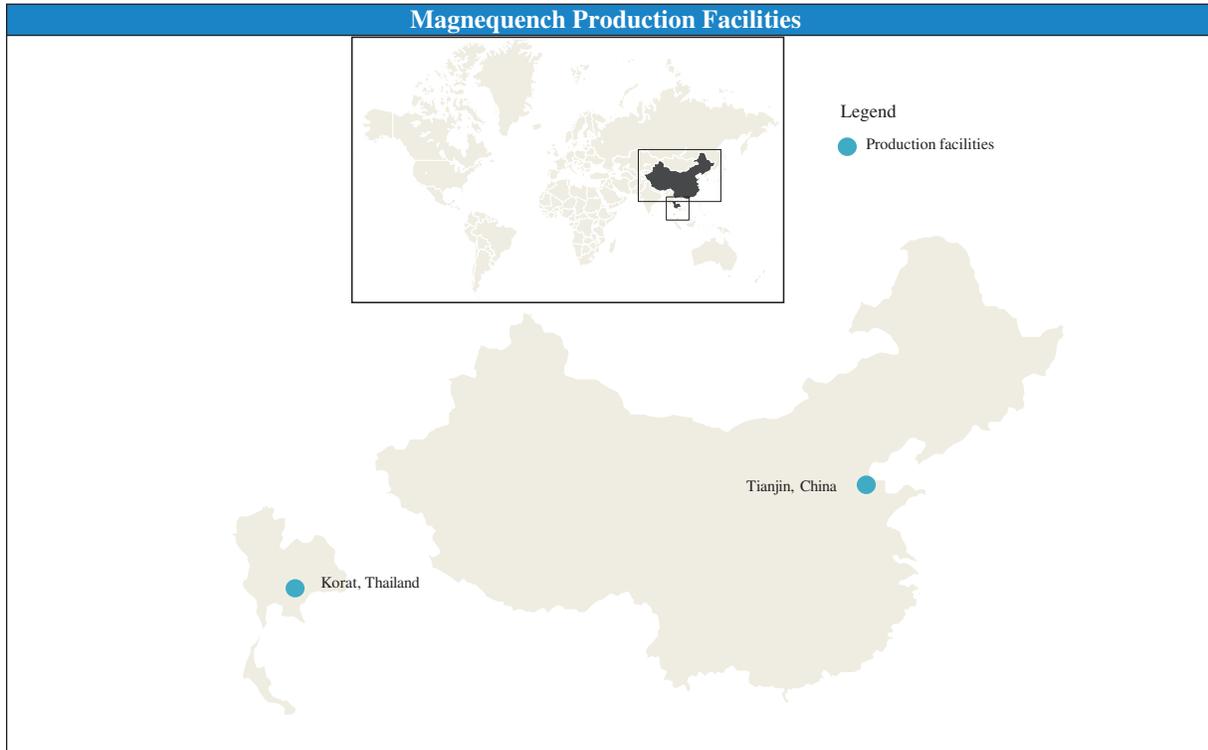
Sourcing of Raw Materials

Magnequench's Tianjin facility sources its praseodymium raw material primarily from Chinese rare earth separators, while its Korat, Thailand operation sources material from Silmet and other third parties. The main material sourced from Silmet is neodymium oxide. This oxide must be converted into metal form before it can be utilized by Magnequench. The conversion process is outsourced to a related third party pursuant to a toll processing agreement with GQD Special Material (Thailand) Co. Ltd. (“GQD”), a Thai joint venture in which Neo owns a 20% interest (see “*Corporate Structure – Intercorporate Relationships*”), which operates a production facility in Rayong, Thailand. At the Tianjin facility, much of the raw material that goes into the production of Magnequench Powders is stored at its facilities on a consignment basis and purchased as consumed.

From a supply chain perspective, Magnequench benefits from several competitive advantages that help contribute to its market leading position in bonded and hot deformed NdFeB magnets. Magnequench's longstanding relationships with key suppliers in China, as well as its alternative source of supply through internal procurement and from outside of China, provide it with a balanced supply chain. Magnequench also has the ability to source its supply from C&O.

Customers value the security provided by this ability to source material from both inside and outside of China. In addition, the consignment agreements at Tianjin allow Magnequench to maintain a highly efficient supply chain, and volatility of input costs is managed through pricing mechanisms that allow Magnequench to pass input costs on to customers with short lag times.

Production Facilities



Facilities Summary

	Tianjin	Korat
Location	• Tianjin, China	• Korat, Thailand
Type	• Powder manufacturing	• Powder manufacturing
Products	• Magnetic powders	• Magnetic powders
Nameplate Capacity (mT)	• 7,200	• 1,800
Primary Applications	• Automotive • HDD • Factory automation	• Automotive • HDD
Employees	• 438	• 140
Certifications	• ISO/TS16949:2009 • ISO 9001:2008 • ISO 140001:2004 • ISO/IEC 27001 • OHSAS18001:2007 • QC080000:2005 • IECaQ HSPM • RoHS Directive 2002/95/E • Accredited by SGS	• ISO/TS16949:2009 • ISO 9001: 2008 • ISO 14001: 2004 • ISO5001:2011 • OHSAS18001:2007 • IECQ HSPM QC 080000:2012 • COR1:2009 • UL and Product RoHS certified • RSCS Certificate of Participation
Neo Ownership	• 100%	• 100%

Tianjin Facility

The Tianjin facility is a magnetic powder and compound manufacturing facility situated on approximately 15 acres of land near Tianjin, China about 90 kilometres south-east of Beijing. The magnetic powder manufacturing facility utilizes 12 proprietary, highly sophisticated melt spinning machines or jet casters. Magnequench's magnet business team and its development laboratory are located at the Tianjin facility. Magnequench (Tianjin) Co., Ltd., the entity that operates the Tianjin facility, is an indirect wholly-owned subsidiary of Neo Cayman. See "Corporate Structure – Intercompany Relationships".

Korat Facility

The Korat facility is a magnetic powder and compound manufacturing facility situated on approximately six acres of land in Korat, Thailand, about 250 kilometres northeast of Bangkok. The magnetic powder manufacturing facility utilizes three proprietary, highly sophisticated melt spinning machines or jet casters. Magnequench (Korat) Co. Ltd., the entity that operates the Korat facility, is an indirect wholly-owned subsidiary of Neo Cayman. See "Corporate Structure – Intercompany Relationships".

While the Korat facility does not currently produce powder for hot deformed magnet applications, both the Tianjin and Korat facilities have the capability to manufacture the full suite of Magnequench products, giving Neo flexibility to allocate production as needed.

Financial Summary

(\$000s and volume in tonnes)	LTM	Combined Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
	Combined	Combined	Predecessor	Predecessor
Volume	5,893	5,369	5,516	5,694
Revenue	171,544	159,238	185,643	218,032
Operating income (loss)	29,364	21,876	(103,879)	38,470
<i>Operating margin</i>	17.1%	13.7%	(56.0%)	17.6%
Adjusted OIBDA ⁽¹⁾	45,877	38,131	42,054	55,274
<i>Adjusted OIBDA Margin⁽¹⁾</i>	26.7%	23.9%	22.7%	25.4%
Capital expenditures	1,509	1,450	1,452	2,283

(1) For the reconciliation of Adjusted OIBDA and Adjusted OIBDA Margin to operating income and operating margin, see "Selected Financial Information" and "Management's Discussion and Analysis – Non-IFRS Financial Measures".

Chemicals and Oxides Segment

Overview

The C&O segment manufactures and distributes a broad range of light and heavy rare earth engineered products that have become an indispensable part of devices used in modern life. C&O separates light rare earth concentrate ("LREC") and heavy rare earth concentrate ("HREC") into standard and highly-engineered rare earth oxides and salts. In addition to the separation business, C&O is focused on using these REEs to produce higher value, engineered functional materials for use in auto catalysts, wastewater treatment and other end market applications.

From Neo's ZAMR and Silmet production facilities in Zibo, China and Sillamäe, Estonia, Neo processes LREC into products such as cerium, lanthanum, neodymium and praseodymium oxides and salts. Using these products, Neo then produces engineered functional mixed oxide products for use in auto catalysts, petroleum refining and other chemical catalysts, magnets, hybrid and electric vehicles, water treatment, and a number of other applications.

Neo's JAMR production facility in China processes HREC into constituent elements for use in a multitude of industrial applications, including multi-layer ceramic capacitors ("MLCC"), high efficiency lighting and displays, high-end optical lenses and consumer electronics.

Products

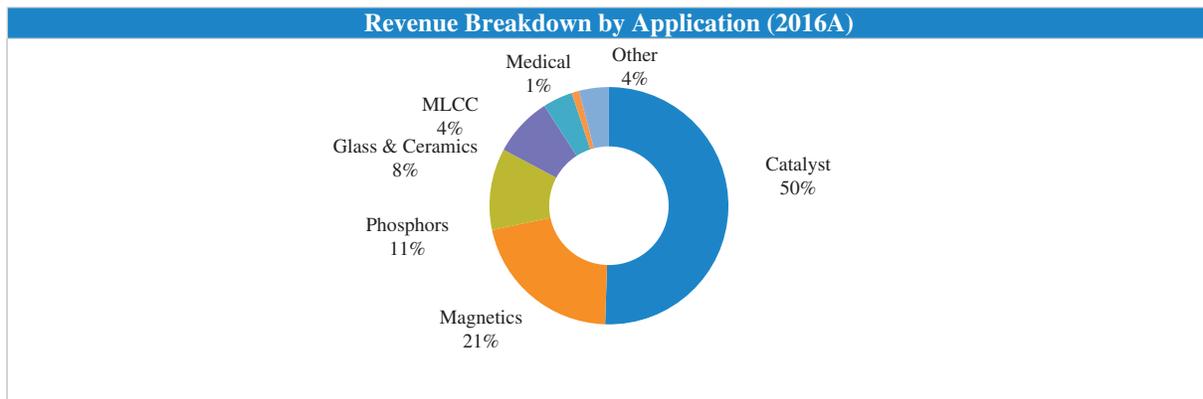
Neo produces engineered functional materials from rare earth elements that have unique physical properties, making them an indispensable part of devices used in modern life. Neo’s world-class rare earth processing and materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered materials.

Neo’s products include a wide array of light and heavy engineered rare earth materials and are found in technology applications including emission-control catalysts for automobiles and LDVs, magnetics, crude oil refining, advanced and consumer electronics (including smartphones), high efficiency lighting, high-precision lenses and optics, superalloys, engineered ceramics and many others.

Neo also offers rare earth-based wastewater treatment solutions. Neo’s proprietary rare earth based solution is a high performance, water-soluble coagulant that has a very strong attraction to phosphorus. Neo’s wastewater treatment products generate less chemical sludge than other coagulants and are comprised of a non-hazardous solution that does not stain or discolour facility structures or equipment.

Applications

Neo’s products in the C&O segment are used in a wide array of applications including catalysts, magnets, phosphors, glass, ceramics and others (including waste water treatment).



Application	REEs used	Benefits
Catalysts	La, Ce, Pr, Nd	Improves catalytic activity and hydrothermal stability in FCC, reduces amount of PGM needed, improves thermal stability and widens engine power operational window in auto catalyst
Magnets	Pr, Nd, Sm, Tb, Dy	Allows for smaller, more powerful and temperature resistant magnets
Phosphors	La, Ce, Eu, Tb, Y, Gd, Er, Lu	Enables multi-color phosphors and sensitizers, key elements of high performance lasers and X-Ray phosphors, allows for efficient MRI contrast agents
Glass	La, Ce, Nd, Er, Gd, Yb	Improves refractive index, protects against ultraviolet light and eliminates discoloration of glass (opacifier), amplifies fibre optic cable transmissions
Ceramics	La, Ce, Pr, Nd, Y	Improved dielectrics (capacitors) which are not temperature sensitive, reduces exposure to microwave radiation when used in filters, results in stronger and shock resistant ceramics, improves durability of paints and shortens drying time, results in bright and colourful pigments

Auto Catalysts

The Company’s products are used to improve the catalytic activity and thermal stability of auto catalysts. Catalytic functionality is provided by a mixture of PGM and a washcoat that includes alumina, rare earths and other

inorganics. The system is under continual development in order to provide for enhanced performance as well as more efficient use of the PGM. The largest markets for auto catalysts are North America, Europe and Japan, but demand in China and the rest of the world is increasing due to increasingly stringent environmental standards.

Magnetics

The Company's products are used in both sintered and bonded magnet applications. Neo takes advantage of the vertical integration of its business model and is able to sell REEs to the Magnequench segment in the event that REEs are not sold to third party customers.

Phosphors (Displays)

Rare earths are vital components of phosphors which generate the primary colors red and green in plasma and backlit LCD displays. Phosphors generating the colours red and green almost exclusively require rare earths. Rare earth phosphors are also used in compact fluorescent lights and X-ray screens. C&O's products are currently used in many phosphor applications, from small displays to state-of-the-art high definition televisions.

Glass and Ceramics (Electronics)

High purity lanthanum is used in glass formulations for photography, security video cameras, photocopiers, eyeglasses and microscope lenses. Lanthanum gives certain desirable properties to glass, including a high refractive index and a high degree of transparency and light transmission. Gadolinium is also used for specialty applications such as lenses for high definition cameras.

Rare earths are also used in a variety of electronic ceramic (dielectric) components. The flow of electrical signals on every printed circuit board used in electronic devices is regulated and controlled by the use of dielectric chips known as MLCCs. A large portion uses rare earth formulations containing dysprosium and neodymium of high purity and other precisely engineered physical properties. Other applications using rare earths, include microwave filter chips for mobile communication devices, such as smartphones and other handheld devices.

Customers

C&O derives significant value from its longstanding customer relationships and experience built over the past 24 years. Its R&D activities have played an important role in building these relationships and are important to C&O's client acquisition and retention strategy. As a result of close collaboration with customers, C&O enjoys preferred supplier status on competitive new business and contract renewals.

In 2016, C&O's top 10 customers accounted for approximately 68% of the total C&O segment's sales, with the largest customer accounting for approximately 26%. Longstanding customers include BASF, Umicore, Murata Manufacturing Co., Ltd., the Mitsui group of companies, the Mitsubishi group of companies and Johnson Matthey.

Sales and Marketing

The C&O sales organization consists of 14 people located across three continents in order to support customers on a local level. The primary sales activities are deployed on a regional basis while certain large multinational customers are managed globally. The sales team members report to a sales director who has responsibility for the segment's global sales.

Four members of the sales team focus exclusively on sales for the C&O business segment while the remainder also provide support for the Rare Metals or Magnequench segments. This integration allows for continuity of customer coverage across all three business segments. The customer service function and sales and inventory management are co-located in the sales offices in North America, Japan, the U.K. and South Korea. Each local sales office has customer service support staff to facilitate customer orders.

Competition

Neo has made significant investments in state-of-the-art analytical, quality and process control systems and procedures to differentiate itself from its competitors. Neo was the first international producer in China to achieve

certain international ISO certifications. Another key competitive advantage that Neo has over its competitors is its extensive global marketing and sales support team, which is indispensable in terms of Neo's relationships with its customers. These operations provide development and applications engineering support for customers' current and future requirements, resulting in market leading products and services. Neo's unique positioning provides competitive advantages over competitors by allowing for superior products and services while abiding by a high standard of corporate governance.

As the only non-Chinese licensed separator of rare earths, Neo has the advantage of being a lower-cost producer by virtue of its unique access to high-quality rare earth reserves in China supported by its lower operating cost structure. At the same time, Neo is able to produce products that meet the most stringent standards of its customers. Relative to its non-Chinese competitors, it has a combination of lower costs with equivalent or higher quality products and multi-lingual sales engineers located globally in Neo's target market areas.

Neo competes with companies that operate in both the rare earth separation and engineered functional materials markets.

In the rare earth separation market, Neo competes primarily with six state-owned enterprises in China as well as Lynas Corporation Ltd.

In the engineered functional materials market, Neo currently competes in the auto catalyst segment with Rhodia S.A. ("**Rhodia**", a division of Solvay S.A.), Magnesium Elektron Ltd. (a division of the Luxfer Group) and Daiichi Kigenso Kagaku Kogyo Co. Ltd. ("**DKKK**") and in other high value applications with ShinEtsu Chemicals Co., Rhodia and DKKK. Neo has been able to establish and grow its market share by leveraging the cost advantage of having its primary auto catalyst manufacturing facility in China.

Research and Development

Neo conducts the majority of its R&D internally. It collaborates with key customers who evaluate the materials and provide feedback. Collaboration with selected research and educational institutions further augments Neo's R&D capabilities. The vast majority of products are designed with specific client requirements in mind.

Commercialization timing cycles of these materials vary by product, product line and target market based on the client's qualification process. These cycles can be shortened or lengthened depending on the degree of customization and the applications involved. For example, commercialization in auto catalyst applications can take up to four to five years. Neo's established relationships and qualifications have positioned C&O among the technology leaders in the rare earth sector. These relationships are a barrier to entry for new competitors who must build relationships and go through extensive qualification periods in order to be competitive.

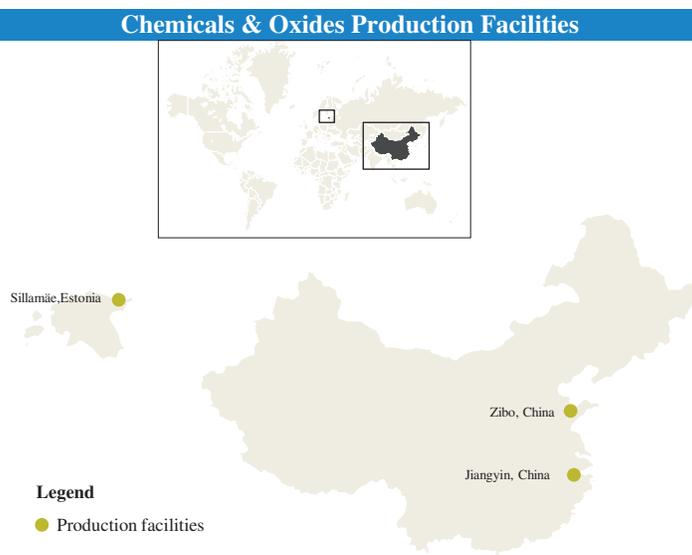
Neo's R&D centres work closely with customers and research institutions on applied research and novel product developments which, upon customer acceptance, are transferred to full production at Neo's manufacturing facilities. The C&O R&D tasks are distributed amongst 59 scientists in five global locations: Zibo, China, Jiangyin, China, Abingdon, U.K., Singapore and Sillamäe, Estonia. Application support is provided by region, expertise and market location. The ZAMR, JAMR and Silmet R&D groups are attached to their respective production facilities, and in addition to applied research, they employ their expertise to product scale-up and process development.

The Abingdon and Singapore groups are involved with customer applications and materials innovation for their respective markets. With the large growth and innovative product development in the European auto catalyst sector, the Abingdon center is involved in the development of rare earths and mixed oxides for the auto catalyst market. Similarly, growth in the Asian auto catalyst and electronics applications markets are supported out of Singapore.

Sourcing of Raw Materials

The raw materials required for C&O are generally separated rare earth elements. Neo is subject to annual REE separation quotas in China of approximately 1,600 tonnes at ZAMR and 1,200 tonnes at JAMR that provide a degree of vertical integration as they have the ability to purchase and separate rare earth concentrate for their own internal use or to sell to third parties. The balance of the separated REEs can be purchased from a number of alternative suppliers in Russia and China. Neo's ability to produce separated rare earths is contingent upon quotas received from the Chinese government. See "*Risk Factors – Changes in China's Regulation of the Rare Earths Industry*".

Production Facilities



Facilities Summary

	ZAMR	JAMR	Silmet
Location	• Zibo, China	• Jiangyin, China	• Sillamäe, Estonia
Type	• Process LREC	• Process HREC • Ionic clays	• Process LREC
Products	• Ce, Nd, Pr, La, Zr	• Ce, Nd, Pr, La, Sm, Eu, Gd, Tb, Dy, Lu, Ho, Er, Y	• Ce, Nd, La, Pr oxides and salts
Nameplate Capacity (mT) ...	• 4,500	• 4,000	• 2,500
Primary Applications	• Auto catalysts	• HREC applications	• LREC applications
Employees	• 348	• 307	• 223
Certifications	• ISO9001:2015 • ISO14001:2004 • OHSAS 180001:2007	• ISO9001:2008 • ISO14001:2004 • OHSAS 180001:2007	• ISO9001:2000 • ISO14001:2004 • OHSAS 18001:2007
Neo Ownership	• 95%	• 95%	• 100%

ZAMR Facility

ZAMR’s rare earths and zirconium processing plant is located approximately 21 kilometres from the center of Zibo, an industrial center in Shandong Province, China. The plant site consists of 18 buildings on 15 acres. The ZAMR facility separates light rare earth elements, manufactures light rare earths compounds and produces a line of high quality zirconium products and auto catalysts. ZAMR’s production capabilities currently exceed its allowed production quotas and management believes that as the applicable government authorities continue their efforts to curtail unlicensed production, this facility could benefit from an increase in the annual production quota and has excess capacity to accommodate higher volumes. ZAMR is a joint venture in which Neo holds a 95% indirect interest with the remaining 5% owned by local employees. See “*Corporate Structure – Intercorporate Relationships*”.

JAMR Facility

JAMR’s rare earths processing plant is located approximately 150 kilometres from Shanghai in the city of Jiangyin, Jiangsu Province, China. The plant consists of 25 buildings on approximately 20 acres. The JAMR facility

refines HREC and ionic clay concentrates from Southern China to produce a range of heavy rare earth products for customers in the high-tech industries in international and Chinese markets. These customers, in turn, manufacture products such as permanent magnets, electronic components, display phosphors and optical glass. The JAMR facility is located approximately three kilometres from the Yangtze River Port, which facilitates international shipments. This plant is in close proximity to a large thermal power plant run by Jiangsu Ligang Electric Power Co. Ltd., which provides sufficient power to JAMR. JAMR's production capacity currently exceeds its allowed production quotas and management believes that as the applicable government authorities continue their efforts to curtail unlicensed production, this facility could benefit from an increase in the annual production quota and has excess capacity to accommodate higher volumes. JAMR is a joint venture in which Neo holds a 95% indirect interest with the remaining 5% owned by local employees. See “*Corporate Structure – Intercorporate Relationships*”.

Silmet Facility

This facility consists of various manufacturing, research and administration buildings located on 67 acres of land in Sillamäe, Estonia, approximately 200 kilometres from Tallinn, the Estonian capital. At Silmet, Neo transforms REEs into rare earth products and has extensive experience manufacturing niobium and tantalum rare metal products. As of June 30, 2017, Silmet has the nameplate capacity to produce up to 2,500 tonnes of rare earth products per year and 459 tonnes of rare metals per year. The main equipment utilized for production at Silmet include electron beam furnaces, shaft furnaces for aluminothermy reduction, rotary tube furnaces, rare metals solvent extraction lines, and various precipitation tanks. NPM Silmet OU, the entity that operates the Silmet facility, is an indirect wholly-owned subsidiary of Neo. See “*Corporate Structure – Intercorporate Relationships*”.

The C&O business segment also operates sales and R&D offices through several subsidiaries.

Financial Summary

<i>(\$000s and volume in tones)</i>	LTM	Combined Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
	Combined	Combined	Predecessor	Predecessor
Volume	9,201	8,968	7,886	6,605
Revenue	170,062	164,150	168,436	181,937
Operating income (loss)	10,265	8,230	(48,406)	(227,188)
<i>Operating margin</i>	6.0%	5.0%	(28.7%)	(124.9%)
Adjusted OIBDA ⁽¹⁾	29,963	24,516	20,041	12,217
<i>Adjusted OIBDA Margin⁽¹⁾</i>	17.6%	14.9%	11.9%	6.7%
Capital expenditures	3,954	3,974	4,450	2,329

(1) For the reconciliation of Adjusted OIBDA and Adjusted OIBDA Margin to operating income and operating margin, see “*Selected Financial Information*” and “*Management’s Discussion and Analysis – Non-IFRS Financial Measures*”.

Rare Metals Segment

Overview

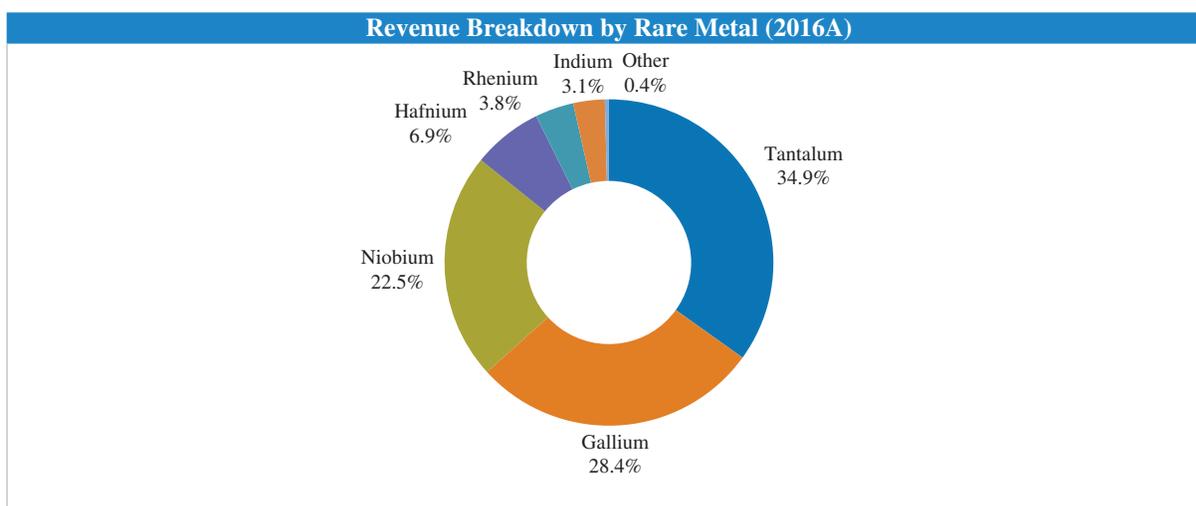
The Rare Metals segment sources, reclaims, produces, refines and markets high value metals and their compounds. These products include both high temperature metals (tantalum, niobium, hafnium and rhenium) and electronic metals (gallium and indium). Applications from products made in this segment primarily include superalloys for jet engines, medical imaging, wireless technologies and LED lighting. Other applications include the use in flat panel displays, solar, steel additives, batteries and electronics applications. The growing adoption of LED applications, which require the use of GaCl₃, is allowing the Rare Metals segment to benefit from the decline in certain rare earth phosphor applications. The table below sets out the sources and processes that Neo applies in the Rare Metals segment.

Rare Metals	Source		Neo Processing		
	Minerals /Ore	Recycled	Extracting / Separate	Upgrade / Purify	Value-Add
High Temperature Metals					
Tantalum	✓	✓	✓		
Niobium	✓		✓		
Hafnium		✓	✓	✓	✓
Rhenium		✓	✓	✓	✓
Electronic Metals					
Gallium		✓	✓	✓	✓
Indium		✓	✓	✓	✓

The Rare Metals segment has six production facilities across three continents in North America (Canada and the U.S.), Europe (Estonia and Germany) and Asia (South Korea).

Products

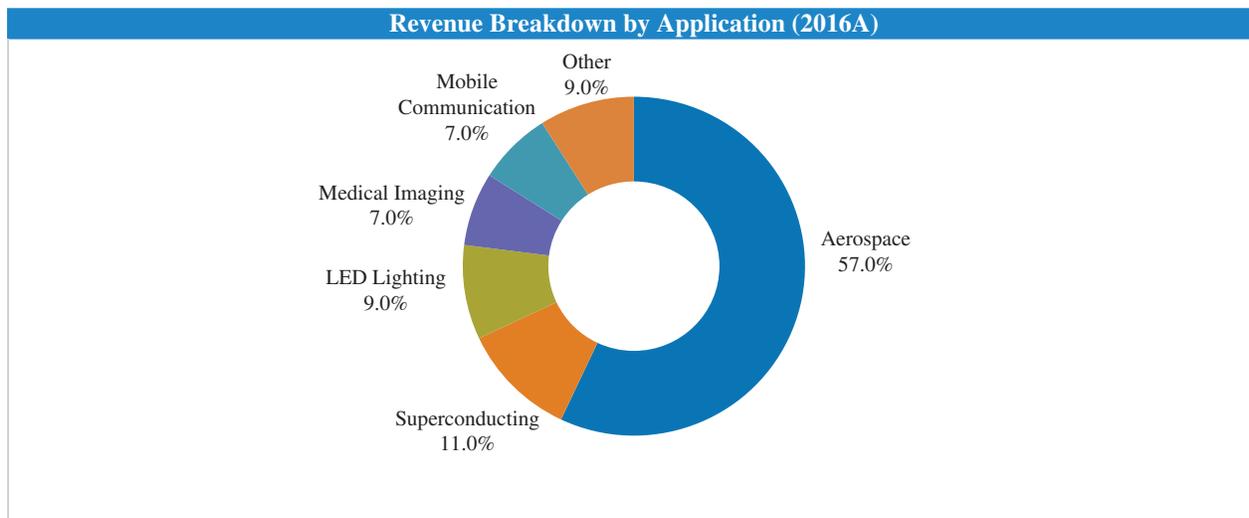
The rare metal-based products Neo produces include tantalum, niobium, gallium, hafnium, rhenium and indium. Rare Metals are physically and chemically different from rare earths. Unlike rare earths, rare metals are diverse and share few overarching similarities. These products are used in a broad range of end markets including aerospace, superconducting, LED lighting, medical imaging and mobile communication, among others.



Applications

Applications from products made in this segment primarily include superalloys for jet engines, medical imaging, wireless technologies and LED lighting. Other applications include the use in flat panel displays, solar, steel additives,

batteries and electronics applications. The growing adoption of LED applications, which require the use of GaCl₃, is allowing the Rare Metals segment to benefit from the decline in certain rare earth phosphor applications.



Customers

In 2016, the Rare Metals segment's top 10 customers accounted for over approximately 77% of the total segment's sales, with the largest customer accounting for approximately 43%. For example, longstanding customers include the PCC Group, AXT Inc., Polymer Chemicals, LLC, H.C. Starck and Cannon-Muskegon Corporation.

Sales and Marketing

Sales in this segment are handled by a dedicated team of eight local salespeople, with most members of the sales group having over 15 years of relevant industry experience. These sales and marketing activities are coordinated by the Senior Vice President of Rare Metals, who has a background in sales of minor metals and R&D of engineered materials.

As the closest market participants, Rare Metals' sales professionals also have responsibility for sourcing raw materials. The dual-role allows the Rare Metals segment to manage the impact of pricing volatilities across all markets. The Rare Metals segment sources its materials conflict-free from Africa, South America and Asia.

Competition

Tantalum

The tantalum market is mainly comprised of large, global companies that have a high degree of downstream vertical integration (i.e. processing and fabrication). However, these competitors do not mine raw materials, and thus source their key inputs from the same markets as Neo. Major competitors in the tantalum market include Ningxia Orient Group Co Ltd. ULBA, a KAZATPOMPROM Company, and H.C. Starck.

Niobium

A major competitor in the niobium market is Companhia Brasileira de Metalurgia e Mineração, a privately held Brazilian company that is a leading niobium producer and the sole company present in all niobium market segments (including the ferro-niobium, superalloy and superconductive segments). Other major competitors to Neo in the niobium market include Ningxia Orient Group Co Ltd. and Solikamsk Magnesium Works.

Gallium

In the gallium business, there are six major competitors, with the majority located in Japan. The major competitors outside of Japan include Nanjing Jinmei Gallium, Vital Materials Co. Ltd., 5N Plus Inc., CMK Ltd., PPM Pure Metals GmbH and Indium Corporation.

Research and Development

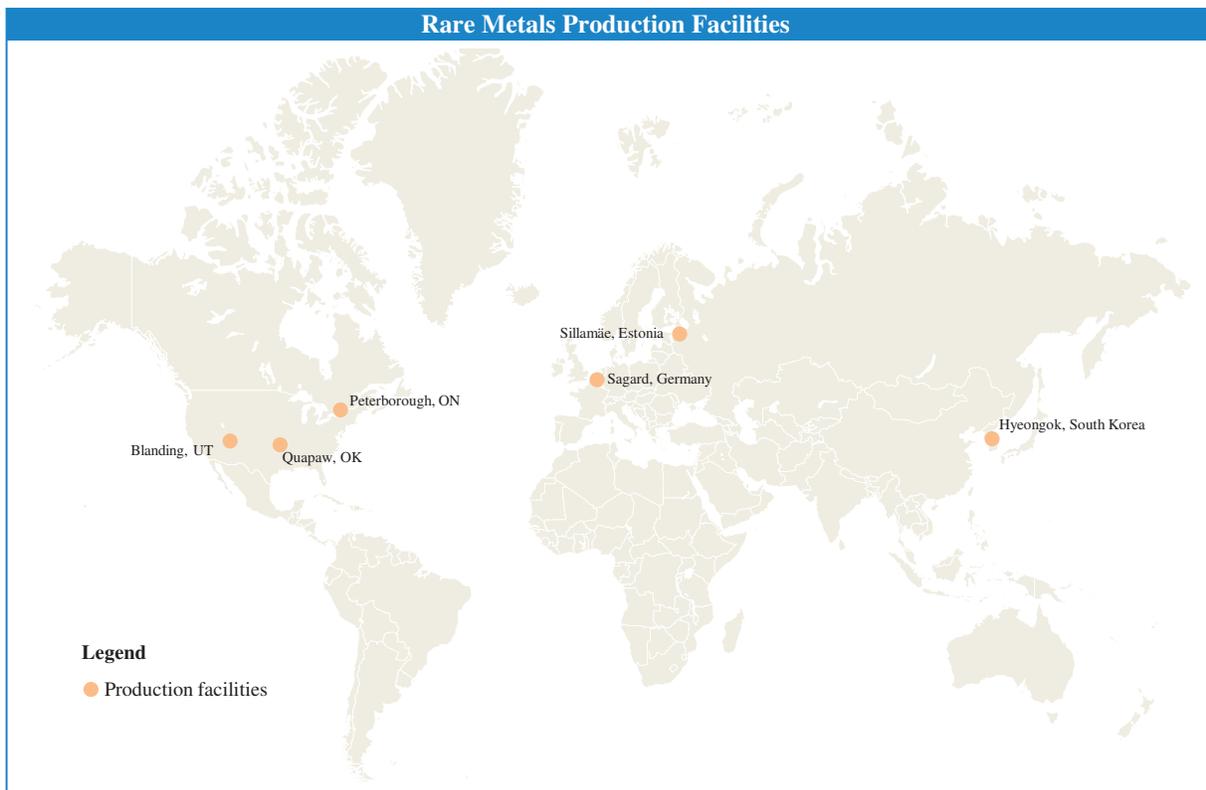
The R&D group at Silmet consists of five scientists and engineers who focus on the development of rare metal oxides and superalloys. The group has historically focused on production, support and continuous process improvements, but has more recently transitioned to developing value-added products such as high-purity oxides and specialty alloys, as well as cost reduction improvements. The R&D group is also developing a revised process that will optimize separation and efficiency at the tantalum and niobium facilities at Silmet.

The Rare Metals segment also conducts R&D at their facility in Peterborough, Ontario. This group has seven scientists and engineers who focus on the production and recycling of minor metals such as rhenium, as well as indium and other electronic metals. This dedicated group works on technology and new product development, as well as process improvement and plant support. This group has developed and recently begun licensing a new technology for the recovery of germanium from secondary source material.

Sourcing of Raw Materials

The Rare Metals segment sources its materials conflict-free from Africa, South America and Asia. Neo has held a conflict-free certification from the EICC every year since 2014, when it received official certification for the period covering 2013. This certification is an important element of customer relations, as many customers consider the certification a key criterion in determining their sourcing decisions. The certification is awarded annually and provides proof that Neo's products do not contain "conflict minerals" from the Democratic Republic of Congo or an adjoining country.

Production Facilities



Facilities Summary

	Silmet	Buss & Buss	Blanding	Quapaw	Peterborough	Hyeongok
						
Location	• Sillamäe, Estonia	• Sagard, Germany	• Blanding, Utah	• Quapaw, Oklahoma	• Peterborough, Ontario	• Hyeongok, South Korea
Type	• Refinery	• Recycling and alloy production	• Recycling • Upgrading • Chemicals	• Chemicals	• Recycling	• Chemicals
Products	• Nb • Ta	• Ta • Re (metal & salt) • Hf compounds	• Ga	• GaCl ₃ • Ga ₂ O ₃ • InCl ₃	• Ga • In	• GaCl ₃
Nameplate Capacity (mT)	• Ta: 78 • Nb: 381	• Ta: 40 • Re (metal): 4 • Hf: >25	• Recycling Ga: 30 • Refining/ • Upgrading Ga: 50	• GaCl ₃ : 97 • Ga ₂ O ₃ : >1 • InCl ₃ : 2.5	• Ga /In: 15-20	• GaCl ₃ : 105
Primary Applications	• Superalloys • Superconductive wires	• Superalloys	• Semiconductors	• LED lighting (white LED) • Li batteries	• LED lighting • Recycled solar • Li batteries	• LED lighting • Li batteries
Employees	• 222	• 14	• 8	• 12	• 21	• 8
Certifications	• ISO9001 • ISO14001 • ISO18011	• ISO9001	• ISO9001	• None	• None	• ISO9001 • ISO14001 • ISO18011
Neo Ownership	• 100%	• 50.1%	• 100%	• 80%	• 100%	• 80%

Silmet Facility

This facility consists of various manufacturing, research and administration buildings located on 67 acres of land in Sillamäe, Estonia, approximately 200 kilometres from Tallinn, the Estonian capital. At Silmet, Neo transforms REEs into rare earth products and has extensive experience manufacturing niobium and tantalum rare metal products. As of June 30, 2017, Silmet has the nameplate capacity to produce up to 2,500 tonnes of rare earth products per year and 459 tonnes of rare metals per year. The main equipment utilized for production at Silmet include electron beam furnaces, shaft furnaces for aluminothermy reduction, rotary tube furnaces, rare metals solvent extraction lines, and various precipitation tanks. NPM Silmet OU, the entity that operates the Silmet facility, is an indirect wholly-owned subsidiary of Neo. See “*Corporate Structure – Intercorporate Relationships*”.

On June 9, 2015, Neo’s Silmet facility suffered a fire that completely destroyed Building 51 and its operational and production capabilities. Building 51 contained the equipment used to leach the raw materials for tantalum and niobium production. As a result of the fire, Silmet was forced to drastically curtail production of rare metals products for the remainder of 2015, although there was no impact upon Silmet’s rare earth production. In the fourth quarter of 2015, Neo installed equipment that restored approximately 30% of the lost leach capacity, and in 2016 it was able to further increase its leach capacity to approximately 50% of its pre-fire capacity. In September of 2017, Neo completed the installation of additional equipment that is expected to bring its rare metals production capacity back to approximately its full pre-fire capacity by the end of 2017. See “– *Environmental – Hazardous and Radioactive Substances and Wastes*”.

Neo is pursuing an insurance claim for the loss of property, the cost of demolition, cleanup, and decontamination, and business interruption losses relating to the June 9, 2015 fire that destroyed Building 51 at the Sillamäe location. Coverage issues, issues relating to the policies, and the amount of the claim that the Insurers will pay, if any, have yet to be determined. Neo, and its predecessors in interest, have been paid two advances of €2,000,000 each, for a total of €4,000,000 after being credited with a deductible of €938,000. The advance payments were made subject to the insurers’ full reservation of all rights.

Buss & Buss Facility

Located in Sagard, Germany and approximately 300 kilometres north of Berlin, this facility recycles tantalum scrap using primarily a pyrometallurgical process to produce tantalum metal. This plant also recycles rhenium from superalloys, producing both catalyst grade and high purity rhenium metal pellets. The plant site consists of two attached buildings on approximately 1.1 acres. Neo indirectly owns 50.1% of the joint venture that owns this facility, with the remainder owned by one of the founders of the facility. See “*Corporate Structure – Intercorporate Relationships*”.

Blanding Facility

Located in Blanding, Utah, approximately 500 kilometres southeast of Salt Lake City, the plant site consists of three buildings on approximately 40 acres. Furnace technology is utilized to recover gallium from high purity gallium arsenide scrap. Purities for this secondary gallium rare metal are in the 4N to 8N range. The facility also: (i) upgrades primary gallium from various global producers into the 6N to 8N purity range; (ii) produces gallium nitrate; and (iii) produces gallium oxide. Neo Rare Metals (Utah), LLC, the entity that operates the Blanding facility, is an indirect wholly-owned subsidiary of Neo. See “*Corporate Structure – Intercorporate Relationships*”.

Quapaw Facility

Located in Quapaw, Oklahoma, the plant site consists of three buildings on five acres of land. The facility, formerly known as Gallium Compounds, is recognized as a leading manufacturer of GaCl₃. Neo Rare Metals (Oklahoma), LLC, the entity that operates the Quapaw facility, is an indirect 80% owned subsidiary of Neo with the remaining 20% owned by the founders of the Quapaw facility. See “*Corporate Structure – Intercorporate Relationships*”.

Peterborough Facility

Located in Peterborough, Ontario, approximately 140 kilometres northeast of Toronto, the plant site consists of one building on approximately 1.7 acres. The plant is a hydrometallurgical plant recovering gallium and indium rare metals from low grade manufacturers waste and residue. Neo Performance Materials ULC, the entity that operates the Peterborough facility, is an indirect wholly-owned subsidiary of Neo. See “*Corporate Structure – Intercorporate Relationships*”.

Hyeongok Facility

This is a GaCl₃ production facility located in the Republic of Korea in the Hyeongok Industrial Zone. This manufacturing facility is strategically situated in the heartland of South Korea’s booming LED industry. This plant supplies Asian markets as well as serves as a back-up for the plant located in Quapaw, Oklahoma. Neo Rare Metals (Korea) Inc., the entity that operates the Hyeongok facility, is an indirect 80%-owned subsidiary of Neo Cayman with the remaining 20% owned by the founders of the facility. See “*Corporate Structure – Intercorporate Relationships*”.

Financial Summary

<i>(\$000s and volume in tonnes)</i>	LTM	Combined Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
	Combined	Combined	Predecessor	Predecessor
Volume	399	373	425	410
Revenue	74,487	70,219	67,395	79,355
Operating income (loss)	(3,690)	(8,985)	(26,503)	(10,817)
<i>Operating margin</i>	<i>(5.0%)</i>	<i>(12.8%)</i>	<i>(39.3%)</i>	<i>(13.6%)</i>
Adjusted OIBDA ⁽¹⁾	6,285	954	2,401	1,604
<i>Adjusted OIBDA Margin</i> ⁽¹⁾	<i>8.4%</i>	<i>1.4%</i>	<i>3.6%</i>	<i>2.0%</i>
Capital expenditures	2,547	1,592	3,425	3,631

(1) For the reconciliation of Adjusted OIBDA and Adjusted OIBDA Margin to operating income and operating margin, see “*Selected Financial Information*” and “*Management’s Discussion and Analysis – Non-IFRS Financial Measures*”.

Corporate Segment

Neo's head office is located in Toronto, Ontario, with additional corporate offices in Greenwood, Colorado and Beijing, China. The functions of the head office include finance, administration, information technology, accounting and legal.

Financial Summary

(\$000s and volume in tonnes)	LTM	Combined Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
	Combined	Combined	Predecessor	Predecessor
Volume	n.a.	n.a.	n.a.	n.a.
Revenue ⁽¹⁾	(12,094)	(11,477)	(24,648)	(24,874)
Operating income (loss)	(23,183)	(16,427)	(15,405)	(15,717)
<i>Operating margin</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>
Adjusted OIBDA ⁽²⁾	(18,843)	(15,963)	(15,206)	(15,495)
<i>Adjusted OIBDA Margin⁽²⁾</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>	<i>n.m.</i>
Capital expenditures	298	298	—	—

Note:

- (1) Represents inter-segment revenue eliminations.
- (2) For the reconciliation of Adjusted OIBDA and Adjusted OIBDA Margin to operating income and operating margin, see "Selected Financial Information" and "Management's Discussion and Analysis – Non-IFRS Financial Measures".

Environmental

The Company's operations are subject to numerous detailed and increasingly stringent international, national, federal, provincial, state and local environmental laws, regulations and permits affecting the processing industry, including those pertaining to environmental permitting and licensing, air quality, greenhouse gas, water usage, waste water, pollution, waste management, handling and disposal of radioactive materials and waste and groundwater quality and availability.

Neo's Silmet facility has an Integrated Environmental Permit, which controls its operations in general, and Radiation Practice Licenses for the management of radioactive materials. The Integrated Environmental Permit is renewed annually or in between annual renewals when and if Neo expands operations in that facility. Wastewater from Silmet operations is governed by the Integrated Environmental Permit. The Radiation Practice Licenses for the facility have been renewed for a five-year term with an effective date of January 1, 2014. The Estonia Ministry of Environment has directed that NORM residue generated from the processing of tantalum and niobium, and currently stored at the Silmet facility, must be moved off-site by January 2019. Neo has presented two alternative plans for disposal of the stored NORM residue, both of which are dependent upon Neo receiving necessary government approvals. See "Risk Factors – Environmental Liability Exposure".

Neo's Chinese joint ventures, JAMR and ZAMR, are subject to Chinese national and local environmental protection laws, regulations and permits, which currently impose a graduated schedule of fees for the discharge of waste substances, require the payment of fines for discharges exceeding prescribed standards, and provide for the closure of any facility that fails to comply with orders requiring it to cease or remedy certain activities causing environmental damage. JAMR and ZAMR produce waste water from their rare earths recovery operations. In the case of JAMR, its expansion in 1995 included an upgrade to its waste water processing and treatment equipment, as a result of which its waste water currently meets applicable environmental standards. JAMR pays an agreed fee once a year for the discharge of its waste water. In the case of ZAMR, the plant was designed to make use of waste water discharge facilities of an adjacent petrochemical complex, and ZAMR pays a variable monthly charge based on usage. ZAMR is also obliged to pay a monthly environmental administration fee to the municipal government of Linzi. Effective July 1, 2017, Chinese environmental protection regulations were revised to impose a much lower limit on the discharge of total nitrogen in waste water. In order to comply with the new total nitrogen discharge limits, ZAMR has temporarily reduced its rate of production of certain automotive catalyst products while it installs equipment to enable it to meet the new discharge requirement. ZAMR has already installed some of the new wastewater treatment equipment, which has

enabled it to increase production of automotive catalyst products to approximately 40 to 50% of its normal capacity. ZAMR expects to complete all elements of the new wastewater treatment system by December 2017, which will allow it to return to its normal production capacity.

Air Pollution Control

The Integrated Environmental Permit issued to Silmet regulates air emissions from the facility. Neo's operations in China, Canada and Thailand are also subject to the air emission laws, regulations and permits of those countries.

Hazardous and Radioactive Substances and Wastes

Neo generates and manages solid and hazardous waste, including radioactive wastes, at its facilities. The storage and disposal of low-level radioactive wastes at the Silmet facility are governed by the Radioactive Practice Licenses issued in Estonia. The Silmet facility was constructed in 1948 and has since been used for, among other industrial purposes, the processing of uranium ore and alum shale. In addition, the long history of industrial operations at Silmet may have caused soil, surface water and groundwater contamination at and around the facility. Radioactive materials are present at the Silmet facility and Neo incurs costs to manage and dispose of such materials.

Like many other Chinese processors of heavy rare earths, JAMR generates and stores NORM residue derived from the processing of heavy rare earth clays. JAMR is subject to Chinese national and local environmental protection regulations that govern the handling and storage of this NORM. The Chinese government has yet to finalize legal requirements for the ultimate disposition of NORM stored at JAMR, although management believes that the Chinese Ministry of Environmental Protection is considering various alternatives for the disposition of the NORM generated by all processors of heavy rare earth clays. Management expects that JAMR will need to comply with all applicable rules and regulations for the disposition of NORM generated by rare earth processors, once finalized by the Chinese government. Management cannot currently reasonably estimate the cost that JAMR may incur to comply with those future rules and regulations.

As noted above, on June 9, 2015, Neo's Silmet facility suffered a fire that completely destroyed Building 51 and its operational and production capabilities. The Building 51 fire resulted in the release of certain wastes, including NORM. Neo has obtained a permit allowing it to remediate the NORM that was released due to the fire, and that remediation project is ongoing. Neo is pursuing an insurance claim for the loss of property, the cost of demolition, clean up and decontamination and business interruption losses relating to the fire. Coverage issues, issues relating to the policies and the amount of the claim that the insurers will pay, if any, have yet to be determined. See "*Description of the Business – Chemical and Oxides Segment – Production Facilities – Silmet Facility*". See also "*Risk Factors – Environmental Liability Exposure*".

Other Environmental Laws

Neo is required to comply with numerous other international, national, federal, provincial, state and local environmental laws, regulations and permits in addition to those previously discussed. These additional laws include various Estonian, Chinese, Canadian, Thai, U.S. and European requirements.

Employment Matters

Neo, its subsidiaries and joint ventures have an aggregate of 1,834 full-time employees worldwide as of June 30, 2017, including both corporate and plant level employees, but excluding the employees of the 50/50 joint venture in Germany, Buss & Buss. Neo's operations in China and Estonia account for approximately 85% of employees.

Employee Headcount

<u>By Geography</u>		<u>By Segment</u>		<u>By Function</u>	
Canada	38	Corporate	28	Executive	6
U.S.	45	C&O	899	Production	1,267
Europe	12	Magnequench	621	Logistics	89
Estonia	445	Rare Metals	286	Sales and Marketing	40
Japan	7			R&D	90
South Korea	10			Finance and Accounting ..	61
China	1,106			Administration	159
Singapore	31			Engineering	122
Thailand	140				
Total	1,834	Total	1,834	Total	1,834

Occupational Health and Safety

Neo actively promotes compliance with government requirements, international management standards (BSI-18001 and ISO-14001) and internal company standards that are developed when local standards are not found to be strong enough. Safety and environmental management standards are certified by external consultants and a formal, internal auditing system exists to promote compliance. Neo's accident rates indicate that Neo's performance is significantly better than the industry averages for comparable industries in the United States and performance continues to improve.

USE OF PROCEEDS

The net proceeds to be received by the Selling Shareholder from the Offering after deducting the Underwriters' Commission of C\$ ● is estimated to be C\$ ●, assuming that the Over-Allotment Option is not exercised. If the Over-Allotment Option is exercised in full, the Underwriters' Commission is expected to be C\$ ● and the net proceeds to be received by the Selling Shareholder is estimated to be and C\$ ●. The Company has agreed to pay the estimated expenses of the Offering of C\$ ●. The Company will not receive any proceeds from the Offering.

DIVIDEND POLICY

The Company intends to adopt a dividend policy, which is anticipated to be effective 90 days after the Closing Date, pursuant to which it will pay cash dividends on the Common Shares to shareholders of the Company as of each dividend record date, targeted to be the last day of each calendar quarter. The Company anticipates that the dividend on the Common Shares will be C\$0.095 per Common Share per quarter (C\$0.38 per Common Share per fiscal year).

SELECTED FINANCIAL INFORMATION

The following selected historical financial information as at and for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, have been derived from Neo Cayman's consolidated financial statements for the period from April 5, 2016 (date of incorporation) to December 31, 2016 and the combined carve-out financial statements for the eight-month period ended August 30, 2016, and years ended December 31, 2015 and December 31, 2014, in each case, prepared in accordance with IFRS and included elsewhere in this Prospectus. For the purpose of providing comparable information, Neo Cayman has prepared unaudited combined supplemental financial information for the year ended December 31, 2016, which include adjustments and which Neo Cayman refers to herein as "Fiscal 2016". See "*Management's Discussion and Analysis – Basis of Presentation*". The selected consolidated financial information set out below for the three and six-month periods ended June 30, 2017 and June 30, 2016 have been derived from Neo Cayman's unaudited interim condensed consolidated financial statements (with Predecessor condensed combined carve-out financial statements) prepared in accordance with IAS 34, *Interim Financial Reporting* and included elsewhere in this Prospectus. The selected consolidated financial information set out below for the LTM

period ended June 30, 2017 has been derived from Neo Cayman’s unaudited interim condensed consolidated financial statements for the three and six-month periods ended June 30, 2017 prepared in accordance with IAS 34, *Interim Financial Reporting* and from the unaudited combined supplemental financial information for the year ended December 31, 2016 appearing elsewhere in this Prospectus.

Prospective investors should review this information in conjunction with the consolidated financial statements including the notes thereto, as well as “*Non-IFRS Financial Measures*”, “*Management’s Discussion and Analysis*”, “*Risk Factors*”, “*Plan of Distribution*”, “*Consolidated Capitalization*” and “*Description of Share Capital*” included elsewhere in this Prospectus.

Selected Summary of Statement of Profit or Loss

(\$000s)	LTM	Six month period ended June 30, 2017	Six month period ended June 30, 2016	Combined Year ended December 31, 2016 ⁽¹⁾	Year ended December 31, 2015	Year ended December 31, 2014
	Combined	Successor	Predecessor	Combined	Predecessor	Predecessor
Revenue	403,999	208,296	186,427	382,130	396,826	454,450
Cost of sales						
Costs excluding depreciation & amortization ⁽²⁾	276,798	141,993	136,837	271,642	294,670	342,610
Depreciation and amortization	10,741	4,932	5,283	11,092	14,832	19,663
Gross profit	116,460	61,371	44,307	99,396	87,324	92,177
Expenses						
Selling, general and administrative	53,545	27,126	22,879	49,298	45,419	45,511
Stock-based compensation	4,981	4,981	—	—	—	—
Depreciation and amortization	7,211	3,396	3,887	7,702	18,913	24,933
Research and development	13,817	7,182	6,917	13,552	13,257	14,739
Impairment of goodwill and other long-lived assets	—	—	—	—	203,928	222,246
	79,554	42,685	33,683	70,552	281,517	307,429
Operating income (loss)	36,906	18,686	10,624	28,844	(194,193)	(215,252)
Other income (expense)	2,448	3,049	1,944	1,343	(8,326)	(3,283)
Finance costs, net	(3,375)	25	(3,921)	(7,321)	(8,347)	(11,496)
Foreign exchange (loss) gain	(999)	(523)	(4,350)	(4,826)	7,613	2,462
Reorganization items	(1,993)	—	(478)	(2,471)	(32,187)	—
Income (loss) from operations before income taxes and equity income of associates	32,987	21,237	3,819	15,569	(235,440)	(227,569)
Income tax (expense) benefit	(10,518)	(4,067)	(7,477)	(13,928)	9,980	7,376
Income (loss) from operations before equity income of associates	22,469	17,170	(3,658)	1,641	(225,460)	(220,193)
Equity income (loss) and impairment of associates (net of income tax) ..	327	605	347	69	(702)	(5,413)
Net income (loss)	22,796	17,775	(3,311)	1,710	(226,162)	(225,606)
Attributable to:						
Equity holders of Neo Cayman Holdings Ltd. / Parent’s investment	22,611	17,472	(3,266)	1,873	(223,842)	(207,361)
Non-controlling interest	185	303	(45)	(163)	(2,320)	(18,245)

Notes:

- (1) Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See “*Management’s Discussion and Analysis – Basis of Presentation*”.
- (2) Combined Year ended December 31, 2016 includes an add back of \$24,150 relating to the acquired inventory fair value release. Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See “*Management’s Discussion and Analysis – Basis of Presentation*”.

Selected Summary of Statement of Financial Position

(\$000s)	As at June 30, 2017	As at December 31, 2016
	Successor	Successor
Cash ⁽¹⁾	77,970	79,408
Working capital ⁽²⁾	118,865	95,963
Property, plant, and equipment	85,895	87,818
Intangible assets	74,265	75,404
Goodwill	100,005	98,911
Total assets	524,082	513,751
Total debt	—	7,925
Total liabilities	93,547	109,655
Total equity	430,535	404,096

Notes:

- (1) Neo Cayman has declared a pre-Offering dividend of approximately \$25.0 million. Following the payment of such dividend, Neo’s September 30, 2017 pro forma cash balance would have been approximately \$88.1 million.
- (2) Calculated as the sum of accounts receivable, inventories, income tax receivable and other current assets less the sum of accounts payable and other accrued charges, income tax payable and other current liabilities.

Selected Summary of Statement of Cash Flows

(\$000s)	LTM	Six month period ended June 30, 2017	Six month period ended June 30, 2016	Combined Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
		Combined	Successor	Predecessor	Combined	Predecessor
Cash generated from (used in)						
Operating activities	12,251	9,922	39,692	42,021	51,218	54,006
Investing activities	(23,299)	(4,294)	(18,309)	(37,314)	(25,020)	(68,111)
Financing activities	(17,029)	(8,169)	(15,344)	(24,204)	(30,719)	(15,611)

Cash flow from operating activities includes cash outflows related to restructuring activities associated with the Chapter 11 Cases and the Reorganization. The following was the impact of the cash outflows associated with the restructuring fees.

(\$000s)	LTM	Six month	Six month	Combined	Year ended	Year ended
		period ended	period ended	Year ended	December 31,	December 31,
		June 30,	June 30,	December 31,	December 31,	December 31,
		2017	2016	2016	2015	2014
	Combined	Successor	Predecessor	Combined	Predecessor	Predecessor
Cash generated from Operating						
Activities	12,251	9,922	39,692	42,021	51,218	54,006
Cash outflows associated with						
Reorganization activities	30,926	5,556	—	25,370	—	—
Cash Generated from Operating						
 Activities excluding						
 Reorganization activities	43,177	15,478	39,692	67,391	51,218	54,006

Reconciliation of Operating Income to OIBDA and Adjusted OIBDA

(\$000s)	LTM	Six month	Six month	Combined	Year ended	Year ended
		period ended	period ended	Year ended	December 31,	December 31,
		June 30,	June 30,	December 31,	December 31,	December 31,
		2017	2016	2016 ⁽³⁾	2015	2014
	Combined	Successor	Predecessor	Combined	Predecessor	Predecessor
Operating income (loss)	36,906	18,686	10,624	28,844	(194,193)	(215,252)
Add:						
Depreciation and amortization						
included in costs of sales	10,741	4,932	5,283	11,092	14,832	19,663
Depreciation and amortization	7,211	3,396	3,887	7,702	18,913	24,933
OIBDA	54,858	27,014	19,794	47,638	(160,448)	(170,656)
Adjustments to OIBDA ⁽¹⁾ :						
Stock-based compensation	4,981	4,981	—	—	—	—
Impairment of goodwill and other						
long-lived assets	—	—	—	—	203,928	222,246
Acquired inventory fair value						
release ⁽²⁾	3,443	3,443	—	—	—	—
Loss related to Molycorp's						
product	—	—	—	—	5,810	2,010
Adjusted OIBDA	63,282	35,438	19,794	47,638	49,290	53,600
<i>Adjusted OIBDA Margin</i>	<i>15.7%</i>	<i>17.0%</i>	<i>10.6%</i>	<i>12.5%</i>	<i>12.4%</i>	<i>11.8%</i>

Notes:

- (1) For a description of the adjustments referred to in the table above, see "Management's Discussion and Analysis – Non-IFRS Financial Measures".
- (2) The portion of this inventory sold in the Combined Year ended December 31, 2016 of \$24,150 has already been added back to the reporting operating income in the calculation of the Combined Year ended December 31, 2016 results. Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "Management's Discussion and Analysis – Basis of Presentation".
- (3) Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "Management's Discussion and Analysis – Basis of Presentation".

Neo uses references to Adjusted OIBDA and Adjusted EBITDA interchangeably as the use of adjustments in each measure provides the same calculated outcome of operating performance. Management believes that the use of these adjustments (as defined in Adjusted EBITDA and Adjusted OIBDA) provides a more consistent measure of the underlying operating performance, with comparability among periods that investors may find useful. The exclusion of certain adjustments does not imply that they are non-recurring.

Reconciliation of Net Income (Loss) to EBITDA, Adjusted EBITDA and Free Cash Flow

(\$000s)	LTM	Six month period ended June 30, 2017	Six month period ending June 30, 2016	Combined Year ended December 31, 2016 ⁽⁴⁾	Year ended December 31, 2015	Year ended December 31, 2014
	Combined	Successor	Predecessor	Combined	Predecessor	Predecessor
Net income (loss)	22,796	17,775	(3,311)	1,710	(226,162)	(225,606)
Add Back:						
Finance costs, net	3,375	(25)	3,921	7,321	8,347	11,496
Income tax expense (benefit)	10,518	4,067	7,477	13,928	(9,980)	(7,376)
Depreciation and amortization included in costs of sales . . .	10,741	4,932	5,283	11,092	14,832	19,663
Depreciation and amortization	7,211	3,396	3,887	7,702	18,913	24,933
EBITDA	54,641	30,145	17,257	41,753	(194,050)	(176,890)
Adjustments to EBITDA⁽¹⁾						
Equity (income) / loss and impairment of associates (net of income tax)	(327)	(605)	(347)	(69)	702	5,413
Other (income) expense	(2,448)	(3,049)	(1,944)	(1,343)	8,326	3,283
Foreign exchange loss (gain)	999	523	4,350	4,826	(7,613)	(2,462)
Reorganization items	1,993	—	478	2,471	32,187	—
Stock-based compensation . . .	4,981	4,981	—	—	—	—
Impairment of goodwill and other long-lived assets	—	—	—	—	203,928	222,246
Acquired inventory fair value release ⁽²⁾	3,443	3,443	—	—	—	—
Loss related to Molycorp's product	—	—	—	—	5,810	2,010
Adjusted EBITDA	63,282	35,438	19,794	47,638	49,290	53,600
<i>Adjusted EBITDA Margins</i>	<i>15.7%</i>	<i>17.0%</i>	<i>10.6%</i>	<i>12.5%</i>	<i>12.4%</i>	<i>11.8%</i>
Less:						
Capital expenditures	8,308	4,303	3,309	7,314	9,327	8,243
Free Cash Flow	54,974	31,135	16,485	40,324	39,963	45,357
<i>Free Cash Flow Conversion⁽³⁾</i> . . .	<i>86.9%</i>	<i>87.9%</i>	<i>83.3%</i>	<i>84.6%</i>	<i>81.1%</i>	<i>84.6%</i>

- (1) For a description of the adjustments referred to in the table above, see "Management's Discussion and Analysis – Non-IFRS Financial Measures".
- (2) The portion of this inventory sold in the Combined Year ended December 31, 2016 of \$24,150 (and related tax expense of \$5,130) has already been added back to the reported net income (loss) in the calculation of the Combined Year ended December 31, 2016 results. See the table that illustrates the combination of Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "Management's Discussion and Analysis – Basis of Presentation".
- (3) Calculated as Free Cash Flow divided by Adjusted EBITDA.
- (4) Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "Management's Discussion and Analysis – Basis of Presentation".

Recent improvement in Adjusted EBITDA in the LTM Period

Adjusted EBITDA increased to \$63.3 million for the twelve month period ended June 30, 2017. In the six months ended June 30, 2017 (all post-Reorganization proceedings), Adjusted EBITDA was \$35.4 million compared to the six month period ended June 30, 2016 of \$19.8 million. The primary reasons for the recent improvement in the Adjusted EBITDA performance for the six month period ended June 30, 2017 compared to the prior period, include: increased volumes across all three business units; capturing more high value sales opportunities; reduction in abnormal costs; continuous operational improvements; and increased rare metals throughput at Neo's Silmet facility. See "Management's Discussion and Analysis".

Reconciliation of Net Income to Adjusted Net Income

	LTM	Six month period ended June 30, 2017	Six month period ended June 30, 2016	Combined Year ended December 31, 2016 ⁽¹⁾
<i>(\$000s, except per share amounts)</i>	Combined	Successor	Predecessor	Combined
Net income (loss)	22,796	17,775	(3,311)	1,710
Adjustments to net income (loss)⁽²⁾:				
Reorganization items	1,993	—	478	2,471
Foreign exchange loss (gain)	999	523	4,350	4,826
Stock-based compensation	4,981	4,981	—	—
Acquired inventory fair value release	3,443	3,443	—	—
Tax impact of the above items	(548)	(572)	—	24
Adjustment to deferred tax asset	(1,941)	—	—	(1,941)
Adjusted net income	31,723	26,150	1,517	7,090
Attributable to:				
Equity holders of Neo Cayman Holdings Ltd. /				
Parent's investment	31,478	25,787	1,562	7,253
Non-controlling interest	245	363	(45)	(163)
Weighted average number of common shares outstanding⁽³⁾:				
Basic	39,878,384			
Diluted	●			
Adjusted earnings (loss) per share attributable to equity holders of Neo Cayman Holdings Ltd.				
Basic	\$0.79			
Diluted	●			

Notes:

- (1) Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "Management's Discussion and Analysis – Basis of Presentation".
- (2) For a description of the adjustments referred to in the table above, see "Management's Discussion and Analysis – Non-IFRS Financial Measures".
- (3) For the LTM period, the number of shares is based on the number of shares that would have been outstanding assuming the Offering occurred at the beginning of the period.

Recent Developments for the Three Month Period Ended September 30, 2017

	Three month period ended September 30, 2017	Three month period ended September 30, 2016	Variance	%
	Successor	Combined		
<i>(\$millions, except volume)</i>				
Volume				
Magnequench	1,681	1,369	312	22.8%
Chemicals & Oxides	2,265	2,140	125	5.8%
Rare Metals	102	91	11	12.1%
Elimination	(92)	(120)	28	n.m.
	<u>3,956</u>	<u>3,480</u>	<u>476</u>	<u>13.7%</u>
Revenue				
Magnequench	54	41	13	31.9%
Chemicals & Oxides	50	40	10	24.3%
Rare Metals	17	18	(1)	(4.2%)
Elimination	(5)	(4)	(1)	n.m.
	<u>116</u>	<u>95</u>	<u>21</u>	
Operating income ⁽¹⁾	10.5 to 11.5	10.0	0.5 to 1.5	
Adjusted EBITDA ⁽²⁾	16.0 to 17.0	14.1	1.9 to 2.9	
Adjusted EBITDA for the twelve months ended September 30, 2017	65.2 to 66.2			
Consolidated cash	113.1	89.1	24.0	
Less:				
Pre-Offering dividend	25.0			
Pro forma cash	<u>88.1</u>			

(1) The Combined three month period ended September 30, 2016 includes the add-back for the step-up in inventory value acquired upon the adoption of Business Combination.

(2) Adjustment to EBITDA has been applied consistently with the prior periods. See Reconciliation of Net Income (Loss) to EBITDA, Adjusted EBITDA and Free Cash Flow in the section entitled “Selected Financial Information” and “Management’s Discussion and Analysis”.

The primary business trends in the three month period ended September 30, 2017 are similar to those trends as discussed for the six month period ended June 30, 2017. Please See “Management’s Discussion and Analysis”. Additional factors impacting the three month period ended September 30, 2017 are highlighted below.

Rare earth commodity prices rose significantly during July and August before settling back slightly in September and October.

In Magnequench, Neo estimates this translated to 100 to 200 tonnes of additional volume as customers attempted to buy ahead in anticipation of the Magnequench pass-through reset in October (pass-through adjustments are made primarily monthly and quarterly). Independent of this, volumes continued to rise as they have throughout the year.

In rare earth separation, the C&O segment was able to capture some additional margin from the higher prices as its inventory (and cost of sales) would have been purchased at the previously lower concentration input cost.

The auto catalyst volumes were lower than previous levels due primarily to the impact on production levels from the recent change in environmental standards affecting the ZAMR facility. The C&O segment continues to anticipate returning to full capacity (with an updated water treatment system) by the end of 2017.

Financial performance, in terms of operating income and Adjusted EBITDA, continues to rise with a corresponding increase in projected operating income and Adjusted EBITDA for the twelve month period ended September 30, 2017. This is as a result of the increased volumes at Magnequench and the increased price and margin in rare earths. This was offset by the lower auto catalyst profits. The Rare Metals business continues to operate with similar trends as the first half of the year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Unless otherwise noted, all amounts in this discussion are expressed in U.S. dollars

The following MD&A for Neo should be read in conjunction with the accompanying interim condensed consolidated financial statements (with Predecessor condensed combined carve-out financial statements) and related notes thereto as at and for the three and six month periods ended June 30, 2017, the audited consolidated financial statements and related notes thereto for the period from April 5, 2016 (date of incorporation) to December 31, 2016, and the combined carve-out financial statements for the eight month period ended August 30, 2016 and years ended December 31, 2015 and 2014. Unless otherwise stated, references in this section to “Neo”, “our”, “we” or “Group”, refer to Neo Cayman and its consolidated subsidiaries and its combined Predecessor operations (as defined below).

The financial results presented in this MD&A are prepared in accordance with *International Accounting Standard (“IAS”) 34, Interim Financial Reporting* as adopted by the IASB and in accordance with IFRS as adopted by the IASB. “Adjusted EBITDA”, “Adjusted EBITDA Margin”, “Adjusted Net Income or Loss”, “Adjusted OIBDA”, “Adjusted OIBDA Margin”, “Cash Generated from Operating Activities excluding Reorganization activities”, “EBITDA”, “Free Cash Flow”, “Free Cash Flow Conversion” and “OIBDA” are not measures recognized under IFRS and do not have any standardized meaning prescribed by IFRS. These measures may differ from those used by, and are not necessarily comparable to similar measures presented by, other companies. There are no directly comparable IFRS measures to any of these measures. These measures are intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. See “*Management’s Discussion and Analysis - Non-IFRS Financial Measures*” below.

This discussion contains forward-looking statements and information. The actual results, performance and achievements could differ materially from those implied by these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under “*Risk Factors*”. See “*Forward-Looking Information*”.

The discussion and analysis in this MD&A are based upon information available to management as of October 17, 2017. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect Neo in the future.

Overview

Neo has established itself as a global leader in the innovation and manufacturing of rare earth- and rare metal-based functional materials, which are essential inputs to high technology, high growth, future-facing industries. Neo has a global platform that includes 10 manufacturing facilities located in China, the U.S., Germany, Canada, Thailand and South Korea as well as two dedicated R&D centres in Singapore and the U.K. Neo is the only non-Chinese company with a license to separate REEs in China which provides unique competitive advantages and a degree of vertical integration. Since 1994, Neo has leveraged its rare earth separation expertise to innovate and grow into a leading manufacturer of functional engineered materials for specialty end markets. This includes establishing the #1 global market position in bonded magnets, a top three global market position in auto emission-control catalysts, the #1 GaCl₃ producer for LEDs and growth opportunities into new end markets such as waste water treatment. Neo is organized along three business segments: Magnequench, C&O and Rare Metals.

Magnequench

The Magnequench segment, with over thirty years of manufacturing experience, is the world leader in the production of magnetic powders used in bonded and hot deformed fully dense NdFeB magnets. These powders are formed through Magnequench’s market-leading technology related to the development, processing and manufacturing of magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of REOs as the primary input. These powders are used in the production of bonded permanent magnets that are components in automotive motors, micro motors, traction motors, sensors and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

C&O

The C&O segment manufactures and distributes a broad range of light and heavy rare earth functional materials that have become an indispensable part of modern life. Neo's world-class rare earth processing and materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered materials. Applications from these products include auto catalysts, consumer electronics, petroleum refining, hybrid and electric vehicles and wastewater treatment.

Rare Metals

The Rare Metals segment sources, reclaims, produces, refines and markets high value metals and their compounds. These products include both high temperature metals (tantalum, niobium, hafnium and rhenium) and electronic metals (gallium and indium). Applications from products made in this segment primarily include superalloys for jet engines, medical imaging, wireless technologies and LED lighting. Other applications include their use in flat panel displays, solar, steel additives, batteries and electronics applications.

Corporate

Neo's head office is located in Toronto, Ontario, with additional corporate offices in Greenwood, Colorado and Beijing, China. The functions of this group include finance, administration, information technology, accounting and legal.

Factors Affecting Neo's Performance

Revenue

Neo produces highly engineered functional materials, custom and standard products based in rare earth and rare metals. Neo's products are essential inputs to high technology, high growth, and future-facing industries. REEs and rare metals are indispensable inputs for many applications given their unique physical and chemical properties which include magnetic, catalytic, luminescence, electrochemical, thermal stability and superconductivity. Revenue is related to the demand of these end markets as well as the suitability and competitiveness of Neo's products.

Approximately 87% of the world's rare earth sources are mined in China. Neo's Chinese manufacturing facilities in the C&O segment are subject to rare earth separation quotas in China. Changes in these production quotas may have an impact on the revenue derived from the rare earth elements manufactured and sold from these businesses. In addition, the source rare earths used in the Magnequench business largely come from China. Restrictions in supply of these source rare earths may impact revenues from magnetic powders.

The price of rare earths (both concentrate and finished products) have fallen significantly from the peak levels seen in 2011. Changes in rare earth pricing is partially related to the policies around supply from China, including the continued existence of unlicensed mining operations in China. Most of Neo's custom and standardized element sales are subject to current market pricing. Most of Neo's magnetic powder sales and auto catalyst functional material sales have various forms of material pass-through agreements. These agreements generally have mechanisms tied to the pricing of the rare earth elements but are implemented over established time frames (monthly, quarterly, semi-annually and annually). Accordingly, changes in rare earth pricing may have an impact on total revenue.

Costs of sales

Neo's costs of sales is comprised of raw materials, labour, Neo's processing costs, production overheads and depreciation and amortization of productive assets.

The largest element of Neo's costs of sales is related to the rare earth or rare metal material used in production that it purchases from outside vendors. As noted above, costs for the input of rare earth concentrates have fallen significantly from the peak levels in 2011. Changes in rare earth concentrate input costs are either translated into selling prices of spot sales or incorporated into future selling prices via pass-through mechanisms. There are timing delays between the incorporation of changing material costs and selling prices.

Outside of material cost, Neo's largest costs include labour and benefits, chemical reagents, natural gas, electricity, maintenance, operating supplies, other plant overheads and depreciation and amortization. Some of these

costs are fixed and some of these costs are variable. For a portion of the variable costs, adjustments to production levels are made over periods of time. Accordingly, as its production volume increases or decreases, its average cost per volume produced decreases or increases, respectively. Some of these costs are subject to volume fluctuations and influenced by general economic conditions that are beyond its control.

For the rare earth separation business in the C&O segment, the majority of its costs are common across producing all the REEs (primarily the rare earth concentrate cost). These costs must then be allocated to each of the processes and finished goods that Neo manufactures and sells. Neo's gross margin and operating profit in any period is impacted by the products it sells, the prices thereof and the costs allocated to those products. This margin may vary significantly across products. Neo's costs of sales may also reflect the write-down of inventory based on current market prices for its products, which could materially affect its consolidated results of operations.

Selling, general and administrative (“SG&A”) expense

SG&A expense consists primarily of personnel and related costs, including legal, accounting and other professional service fees, occupancy costs and information technology costs.

Neo has a global sales force that is highly technically trained and fluent in the major languages of its customers. Neo has made significant investments in creating this global sales force close to its major customers with aims to leverage global demand and customized product pricing.

Stock-based compensation

Neo adopted the Legacy Plan through which Legacy Options RSUs, PSUs and Additional PSUs (collectively referred to in this MD&A as “**Stock Units**”) were granted to directors, officers, and employees. These various non-cash Stock Units vest over time and according to performance milestones. However, upon the occurrence of a Liquidity Event (as defined in the Legacy Plan), these Stock Units vest immediately in full, subject to the participant's continued services to Neo through the completion of the Liquidity Event. In connection with the Arrangement, Neo has undertaken to issue Common Shares in place of the ordinary shares of Neo underlying the Stock Units applying the exchange ratio applied in connection with the Arrangement. See “*Corporate Structure – The Arrangement*”.

R&D

One critical success factor for Neo is to continually develop and evolve new products that meet customer's exacting specifications. This includes maintaining close relationships with key customers, understanding changing market factors and responding with innovative products both as improvements to existing applications and developing new applications and solutions.

Neo invests in R&D activities in response to customer needs as well as perceived market development. These expenses consist primarily of salaries, outside labour, materials and equipment. R&D activities occur in both the plant manufacturing locations and dedicated R&D centres and are coordinated through global efforts within each business segment. Neo continues to dedicate resources to research and develop new applications for its products, provide technical solutions to its customers and drive new process development. These factors allow for a more efficient and profitable use of Neo's products.

Finance costs, net

Prior to the Reorganization, Neo's finance costs consisted of interest expense relating to a term loan facility (the “**Magnequench Term Loan**”) from financings undertaken in 2014 with Oaktree, net of interest income on related party loans to Molycorp and certain of its affiliates that were not part of the Reorganization. Both of these were extinguished by way of capital contribution to Neo as part of the Reorganization.

Income tax (expense) benefit

Neo's income tax expense or benefit is based on the income earned or loss incurred in each tax jurisdiction at the enacted or substantively enacted tax rate applicable to that income or loss.

In the ordinary course of business, there are many transactions for which the ultimate tax outcome is uncertain and estimates are required for exposures related to examinations by tax authorities. Management reviews these transactions

and exposures and record tax liabilities based on its assessment of many factors, including past experience and interpretations of tax law applied to the facts of each matter. The determination of tax liabilities is subjective and generally involves a significant amount of judgment, and the final outcome may be different from estimates. A change to these estimates could impact the income tax provision.

Neo recognizes deferred tax assets to the extent management believes it is probable that the related tax benefit amount will be realized. Management considers factors such as the reversal of taxable temporary differences, projected future taxable income, the character of the income tax asset, tax planning strategies, changes in tax laws and other factors. A change to these factors could impact the amount of deferred tax assets Neo recognizes.

Neo's effective income tax rate can vary significantly from quarter-to-quarter for various reasons, including the mix and volume of business in different tax jurisdictions, in jurisdictions with tax holidays and tax incentives, and in jurisdictions for which no deferred tax assets have been recognized because management believed it was not probable that future taxable profit would be available against which tax losses and deductible temporary differences could be utilized. Neo's effective income tax rate can also vary due to the impact of foreign exchange fluctuations, operating losses, changes in its provisions related to tax uncertainties and changes in management's assessment as to whether temporary differences arising from investments in subsidiaries will reverse in the foreseeable future.

Basis of Presentation

On June 25, 2015 (the "**Petition Date**"), Molycorp, together with certain of its subsidiaries, filed a voluntary petition for reorganization under Chapter 11 of Title 11 of the U.S. Bankruptcy Code (the "**Chapter 11 Cases**") in the U.S. Bankruptcy Court for the District of Delaware. On August 31, 2016, pursuant to the terms of the Fourth Joint Amended Plan of Reorganization, certain subsidiaries of Molycorp emerged from bankruptcy. The reorganized business is comprised of a number of operating subsidiaries organized under a holding company, Neo Cayman (also referred to in this MD&A as the "**Successor**"), which is controlled by Oaktree. As a result of the Reorganization, Neo Cayman acquired certain subsidiaries of Molycorp representing downstream business operations denominated Neo Performance Materials Operations (referred to in this MD&A as, the "**Predecessor**"). Following the Reorganization, the Successor has applied IFRS 3 – Business Combinations to account for the transfer of ownership of the Predecessor to Neo Cayman. As a result, the Successor financial statements reflect a new basis of accounting that is based on the fair value of assets acquired and liabilities assumed as of the Reorganization date.

The operations of the Predecessor, which represents the historical financial information of the acquired subsidiaries of Molycorp, upon completion of the Reorganization, is not an existing legal entity for the Predecessor periods preceding the Reorganization as presented in the consolidated and combined carve-out financial statements. Management has prepared combined carve-out financial statements for the purpose of including them in the Prospectus as historical financial information of the business of the Predecessor acquired by Neo Cayman as described in Note 3 of the interim condensed consolidated financial statements and Note 1 of the combined carve-out financial statements to allow comparability with the Successor consolidated financial statements for the periods after the Reorganization.

Periods presented prior to August 31, 2016 represent the operations of the Predecessor and periods presented on and after August 31, 2016 represent the operations of the Successor. Neo Cayman was incorporated on April 5, 2016 and had no commercial operations until its acquisition of the operations of the Predecessor on August 31, 2016. The fiscal periods pertinent to the Predecessor and the Successor have been separated by a black line in the financial statements to highlight the fact that the financial information for such periods has been prepared under two different cost basis of accounting. All intercompany transactions have been eliminated.

The results for the eight month period from January 1 to August 30, 2016 represent the operations of the Predecessor and the results after August 31, 2016 represent the operations of the Successor. As set out below, for the purpose of providing a comparison, management has prepared unaudited combined supplemental financial information for the year ended December 31, 2016 ("**Combined YE 2016**") by combining the results of operations of the Predecessor from January 1 to August 30, 2016 and the results of operations of the Successor from August 31 to December 31, 2016. A combination adjustment was made to exclude the impact of the fair value increment related to the inventory acquired through business combination. The Combined YE 2016 does not purport to represent what Neo's actual consolidated results of operations would have been had the Reorganization actually occurred on January 1, 2016, nor is it necessarily indicative of future consolidated results of operations. The Combined YE 2016 is being discussed herein for information purposes only and does not reflect any operating efficiencies or potential cost savings that may result from the consolidation of operations.

The following table illustrates the basis upon which Neo Cayman is presenting the full year 2016 results and the comparative 2015 and 2014 periods:

(\$000s)	Period from	Period	Less:	Combination	Combined	Year ended	Year ended
	January 1, 2016 to August 30, 2016	from April 5, 2016 ⁽¹⁾ , to December 31, 2016	Period from April 5, 2016 ⁽¹⁾ to August 30, 2016		Adjustments	Year ended December 31, 2016	December 31, 2015
	Predecessor	Successor	Successor		Combined	Predecessor	Predecessor
Revenue	246,818	135,312	—	—	382,130	396,826	454,450
Costs of sales							
Costs excluding depreciation and amortization . . .	178,729	117,063	—	(24,150) ⁽²⁾	271,642	294,670	342,610
Depreciation and amortization . . .	7,044	4,048	—	—	11,092	14,832	19,663
Gross profit	61,045	14,201	—	24,150	99,396	87,324	92,177
Expenses							
Selling, general and administrative . .	30,953	18,345	—	—	49,298	45,419	45,511
Depreciation and amortization . . .	5,151	2,551	—	—	7,702	18,913	24,933
Research and development . . .	9,110	4,442	—	—	13,552	13,257	14,739
Impairment of goodwill and other long-lived assets	—	—	—	—	—	203,928	222,246
	45,214	25,338	—	—	70,552	281,517	307,429
Operating income (loss)	15,831	(11,137)	—	24,150	28,844	(194,193)	(215,252)
Other income (expense)	1,737	(394)	—	—	1,343	(8,326)	(3,283)
Finance costs, net . . .	(7,189)	(132)	—	—	(7,321)	(8,347)	(11,496)
Foreign exchange (loss) gain	(4,117)	(709)	—	—	(4,826)	7,613	2,462
Reorganization items	(2,471)	—	—	—	(2,471)	(32,187)	—
Income (loss) from operations before income taxes and equity income of associates	3,791	(12,372)	—	24,150	15,569	(235,440)	(227,569)
Income tax (expense) benefit	(8,375)	(423)	—	(5,130) ⁽³⁾	(13,928)	9,980	7,376
Income (loss) from operations before equity income of associates	(4,584)	(12,795)	—	19,020	1,641	(225,460)	(220,193)
Equity income (loss) and impairment of associates (net of income tax)	238	(169)	—	—	69	(702)	(5,413)
Net income (loss)	(4,346)	(12,964)	—	19,020	1,710	(226,162)	(225,606)
Attributable to:							
Equity holders of Neo Cayman Holdings, Ltd. / Parent's investment	(4,277)	(12,645)	—	18,795	1,873	(223,842)	(207,361)
Non-controlling interest	(69)	(319)	—	225	(163)	(2,320)	(18,245)

Notes to Combined YE 2016 presentation:

(1) April 5, 2016 is the date of incorporation of Neo Cayman, the Successor entity. In the period from April 5, 2016 to August 30, 2016, Neo Cayman had no commercial business operations until it acquired control of the Predecessor on August 31, 2016 (the date of the Reorganization).

- (2) In accordance with IFRS 3 – Business Combinations, Neo Cayman recognized acquired inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in fiscal 2016 and had a \$24,150 impact on costs of sales excluding depreciation and amortization. This has been removed from costs of sales excluding depreciation and amortization to provide comparability with historic periods, and in management’s view, this cost does not reflect the underlying profitability of the business.
- (3) Tax effect on the aforementioned adjustment using the blended statutory tax rate of 21.2%.

Consolidated Results of Operations

Comparison of the three and six month Successor periods ended June 30, 2017 to three and six month Predecessor periods ended June 30, 2016

	Successor			Predecessor	
	Three month period ended June 30, 2017	Six month period ended June 30, 2017	April 5 ⁽¹⁾ to June 30, 2016	Three month period ended June 30, 2016	Six month period ended June 30, 2016
<i>(Unaudited – \$000s, except per share information)</i>					
Revenue	101,634	208,296	—	94,876	186,427
Costs of sales					
Costs excluding depreciation and amortization	67,237	141,993	—	65,961	136,837
Depreciation and amortization	3,150	4,932	—	2,658	5,283
Gross profit	31,247	61,371	—	26,257	44,307
Expenses					
Selling, general and administrative	16,237	27,126	—	13,135	22,879
Stock-based compensation	1,623	4,981	—	—	—
Depreciation and amortization	1,711	3,396	—	1,942	3,887
Research and development	3,870	7,182	—	3,818	6,917
	23,441	42,685	—	18,895	33,683
Operating income	7,806	18,686	—	7,362	10,624
Other income	1,276	3,049	—	1,939	1,944
Finance income (costs), net	90	25	—	(2,538)	(3,921)
Foreign exchange loss	(537)	(523)	—	(1,239)	(4,350)
Reorganization items	—	—	—	(462)	(478)
Income from operations before income taxes and equity income of associates	8,635	21,237	—	5,062	3,819
Income tax benefit (expense)	640	(4,067)	—	(4,246)	(7,477)
Income (loss) from operations before equity income of associates	9,275	17,170	—	816	(3,658)
Equity income of associates (net of income tax)	275	605	—	256	347
Net income (loss)	9,550	17,775	—	1,072	(3,311)
Earnings per share data attributable to equity holders of Neo Cayman Holdings Ltd.:					
Basic earnings per share	\$ 0.93	\$ 1.76	—	n.a. ⁽²⁾	n.a. ⁽²⁾
Diluted earnings per share	\$ 0.93	\$ 1.74	—	n.a. ⁽²⁾	n.a. ⁽²⁾

(1) April 5, 2016 is the date of incorporation of Neo Cayman, the Successor entity.

(2) Not applicable as no equity instruments were issued and outstanding during the three and six month Predecessor periods ended June 30, 2016.

Revenue

Neo’s consolidated revenue for the three month Successor period ended June 30, 2017 was \$101.6 million compared to \$94.9 million in the three month Predecessor period ended June 30, 2016; an increase of \$6.7 million or 7.1%. For the six month Successor period ended June 30, 2017, consolidated revenue was \$208.3 million compared to

\$186.4 million for the same period in the prior year; an increase of \$21.9 million or 11.7%. Revenue increased across all three business segments.

The Magnequench segment, which represents approximately 43% of consolidated revenue increased revenue to \$42.3 million in the three month Successor period ended June 30, 2017 compared to \$41.3 million in the three month Predecessor period ended June 30, 2016; an increase of \$1.0 million or 2.4%. Magnequench revenue was \$89.7 million for the six month Successor period ended June 30, 2017 compared to \$77.4 million for the same period in the prior year; an increase of \$12.3 million or 15.9%.

The C&O segment, which represents approximately 38% of consolidated revenue increased revenue to \$41.4 million in the three month Successor period ended June 30, 2017 compared to \$38.4 million in the three month Predecessor period ended June 30, 2016; an increase of \$3.0 million or 7.8%. C&O revenue was \$84.4 million for the six month Successor period ended June 30, 2017 compared to \$78.5 million for the same period in the prior year; an increase of \$5.9 million or 7.5%.

The Rare Metals segment, which represents approximately 19% of consolidated revenue increased revenue to \$21.0 million in the three month Successor period ended June 30, 2017 compared to \$16.9 million in the three month Predecessor period ended June 30, 2016; an increase of \$4.1 million or 24.3%. Rare Metals revenue was \$39.5 million for the six month Successor period ended June 30, 2017 compared to \$35.2 million for the same period in the prior year; an increase of \$4.3 million or 12.2%.

Inter-segment revenue represented \$3.1 million and \$5.3 million in the three and six month Successor periods of 2017, respectively, and \$1.7 million and \$4.7 million in the three and six month Predecessor periods ended June 30, 2016, respectively, have been eliminated on consolidation from the C&O segment sales as C&O sells product to Magnequench. The products sold to Magnequench are potential marketable third party sales and are generally sold at fair market value.

Further commentary on the revenue changes in each segment are included in the discussion under the heading “*Discussion and Analysis of Reportable Segments*” below.

Costs of sales

Consolidated costs of sales, excluding depreciation and amortization was \$67.2 million in the three month Successor period ended June 30, 2017 compared to \$66.0 million in the same period in the prior year; an increase of \$1.2 million or 1.8%. Pursuant to the Reorganization, Neo applied IFRS 3 – Business Combinations to account for the acquisition of the inventory of the Predecessor at fair value as well as a mark-up for profit. In the three month Successor period ended June 30, 2017, a portion of the remaining post-Reorganization inventory was sold and had a \$0.5 million impact on costs of sales, excluding depreciation and amortization. Excluding this, costs of sales increased by \$0.7 million in the three month Successor period ended June 30, 2017. Costs of sales increased as a result of increased sales revenue of \$6.7 million offset by favourable impacts of product mix and operational improvements in the business segments.

Consolidated costs of sales, excluding depreciation and amortization was \$142.0 million in the six month Successor period ended June 30, 2017 compared to \$136.8 million in the same period in the prior year; an increase of \$5.2 million or 3.8%. In the six month Successor period ended June 30, 2017, a portion of the remaining post-Reorganization inventory was sold and had a \$3.4 million impact on costs of sales, excluding depreciation and amortization. Excluding this, costs of sales increased by \$1.8 million in the six month Successor period ended June 30, 2017. Costs of sales increased only slightly compared to the increased sales revenue of \$21.9 million.

The reasons for the very strong conversion of sales include:

- Benefits in volumes and product mix – much of the sales increase occurred in Neo’s high margin businesses including the Magnequench segment and the auto catalyst market of the C&O segment;
- Capturing higher value sales opportunities – Neo was able to direct more of its rare earth molecule sales into higher technical and higher value add processes. This is in part due to increased demand in those segments; capturing more opportunities available in those markets and renewed confidence in Neo’s customers and new customers to increase buying from Neo in the post-Reorganization environment;

- Reduction in past abnormal costs – there were fewer abnormal production and overhead costs in the current period than the prior year. The largest driver for this was that in 2016 Neo recorded a significant charge related to inventory at the Silmet facility that was determined to be less marketable as it had been impacted by the fire at the Silmet facility;
- Continuous operational improvements – in addition to Neo’s regular continuous improvement exercises impacting all facilities, Neo conducted some restructuring activities in the Silmet facility. This included changes to the management team, reductions in overall headcounts and renegotiations of certain production cost contracts that have additional and on-going benefits;
- Increased throughput from the Silmet facility – as discussed below, the rare metals production process in the Silmet facility was impacted by a fire in the second quarter of 2015. Through the latter half of 2016 and through 2017, Neo has been able to reconstruct temporary additional capacity and thus create more opportunity for product sales. The newly constructed line at the Silmet facility is expected to return to full capacity by the end of 2017.

Consolidated depreciation and amortization in costs of sales were \$3.2 million and \$4.9 million for the three and six month Successor periods ended June 30, 2017, respectively, as compared to \$2.7 million and \$5.3 million for the three and six month Predecessor periods ended June 30, 2016, respectively. Lower depreciation and amortization expense through June 30, 2016 was mostly attributable to a lower asset base as a result of some assets being further depreciated and changes in the remaining useful lives after applying IFRS 3 – Business Combinations.

Further commentary on the costs of sales changes in each segment are included in the discussion under the heading “*Discussion and Analysis of Reportable Segments*” below.

SG&A expense

For the three and six month Successor periods ended June 30, 2017, Neo’s consolidated SG&A expense was \$16.2 million and \$27.1 million; an increase of \$3.1 million and \$4.2 million, respectively, as compared to the same corresponding three and six month Predecessor periods ended June 30, 2016. In the Predecessor periods, SG&A expense included allocation of the cost of services previously incurred by Molycorp, which would be required to operate Neo. Management believes these allocations reasonably reflect the expenses for Neo which have been incurred during the periods presented, including administrative and corporate costs relating to certain support functions that were provided on a centralized basis within Molycorp.

The support functions provided to Neo by Molycorp included accounting, information technology, taxation, legal, corporate services, corporate governance and other professional services.

Legal and professional fees as well as costs associated with legal claims which were incurred by Neo in its defense against an infringement suit filed by Rhodia which primarily contributed to the increase period-over-period. See “*Legal Contingencies*” below.

Stock-based compensation

For the three and six month Successor periods ended June 30, 2017, Neo’s consolidated stock-based compensation expenses were \$1.6 million and \$5.0 million, respectively, compared to nil for the same Predecessor periods in 2016 since the management incentive plan was put in place on September 1, 2016 upon the completion of the Reorganization.

Depreciation and amortization

Neo’s consolidated depreciation and amortization for the three and six month Successor periods ended June 30, 2017, were \$1.7 million and \$3.4 million, respectively, as compared to \$1.9 million and \$3.9 million for the same corresponding three and six month Predecessor periods of 2016, respectively. The decline was mainly associated with the change in useful lives of certain amortizable intangible assets. This change was the result of the revaluation of the depreciable intangible assets associated with the completion of the Reorganization.

R&D

For the three and six month Successor periods ended June 30, 2017, Neo's consolidated R&D expenses were \$3.9 million and \$7.2 million, respectively, compared to \$3.8 million and \$6.9 million for the corresponding three and six month Predecessor periods in 2016, respectively. Neo continues to prioritize making strategic and appropriate investments in R&D to develop new applications for its products and to strategically position Neo in meeting customers' needs for technical solutions.

Other income

For the three and six month Successor periods ended June 30, 2017, Neo's consolidated other income was \$1.3 million and \$3.0 million, respectively, compared to \$1.9 million and \$1.9 million for the corresponding three and six month Predecessor periods in 2016, respectively. For the three month Successor period ended June 30, 2017, Neo received \$2.0 million in insurance proceeds on claims associated with the fire at the Silmet facility, but incurred \$0.4 million in legal fees for a patent infringement case filed by Neo. For the six month Successor period ended June 30, 2017, Neo received insurance proceeds on claims associated with the fire at the Silmet facility of \$2.0 million and a \$1.4 million settlement for a patent infringement case filed, net of legal expenses incurred.

For the three and six month Predecessor periods ended June 30, 2016, the majority of the other income realized was from insurance proceeds received on claims associated with the fire at the Silmet facility of \$1.0 million as well as from insurance proceeds received on claims associated with business interruption as a result of a fire at Buss & Buss' production facility in 2014.

Finance income (costs), net

Finance income (costs), net for the three and six month Successor periods ended June 30, 2017 were nominal, compared to finance costs of \$2.5 million and \$3.9 million for the corresponding three and six month Predecessor periods in 2016, respectively. On the completion of the Reorganization, the Successor entity has limited outstanding debt for the three and six month Successor periods ended June 30, 2017. Finance costs in the three and six month Predecessor periods related to the Magnequench Term Loan and certain related party loans payable to affiliates of Molycorp.

Foreign exchange

For the three and six month Successor periods ended June 30, 2017, Neo's foreign exchange losses were \$0.5 million and \$0.5 million, respectively, compared to \$1.2 million and \$4.4 million for the corresponding three and six month Predecessor periods ended June 30, 2016, respectively. The decrease in foreign exchange loss for the three and six month Successor periods ended June 30, 2017 compared to three and six month Predecessor periods ended June 30, 2016 was primarily driven by the revaluation of pre-Reorganization related party debt which was denominated in Canadian dollars. These related party loans were extinguished as part of the Reorganization on August 30, 2016 and do not exist for the period post-Reorganization being from August 31, 2016 to date.

Income tax (expense) benefit

Neo had an income tax benefit of \$0.6 million on income from operations before income taxes of \$8.6 million for the three month Successor period ended June 30, 2017 compared to an income tax expense of \$4.3 million on earnings before tax of \$5.1 million for the three month Predecessor period in 2016. For the six month Successor period ended June 30, 2017, Neo had an income tax expense of \$4.1 million on income from operations before income taxes of \$21.2 million compared to an income tax expense of \$7.5 million on income from operations before income taxes of \$3.8 million for the six month Predecessor period ended June 30, 2016.

Neo's blended statutory effective tax rate was 26.2% and 21.9% for the three and six month Successor periods ended June 30, 2017, respectively. Neo's blended statutory effective tax rate was 16.9% and 27.5% for the three and six month Predecessor periods ended June 30, 2016, respectively. Changes in the blended statutory tax rate are generally caused by different amounts of earnings in each respective jurisdiction as well as changes in local tax rates within those jurisdictions.

In addition to the blended statutory tax rates, Neo also considers and includes other factors in computing its overall tax expense, including:

- Relevant income and withholding taxes on intercompany dividends from foreign jurisdictions;
- Recognition and utilization of deferred tax assets;
- Permanent adjustments not included for tax calculation purposes; and
- Other incentives or changes in tax obligations.

In addition, during the three month Successor period ended June 30, 2017, Chinese tax authorities approved Neo's request to claim certain income tax incentives for its Chinese subsidiaries that required meeting various conditions. The benefits of these tax incentives were not previously recognized. As a result of this approval, Neo recognized a related income tax benefit in the three month and six month Successor period ended June 30, 2017 relating to earnings from 2016 and the first quarter of 2017.

The following table presents the three month Successor period ended December 31, 2016:

	Three month period ended December 31, 2016 ⁽³⁾	Combined Year ended December 31, 2016 ⁽¹⁾
	Successor	Combined
(\$000s, except per share amounts)		
Revenue	101,008	382,130
Costs of sales		
Costs excluding depreciation and amortization	82,387	271,642
Depreciation and amortization	3,205	11,092
Gross profit	15,416	99,396
Expenses		
Selling, general and administrative	14,379	49,298
Depreciation and amortization	2,348	7,702
Research and development	3,294	13,552
	20,021	70,552
Operating income (loss)	(4,605)	28,844
Other (expense) income	(385)	1,343
Finance costs, net	(1,087)	(7,321)
Foreign exchange (loss) gain	(442)	(4,826)
Reorganization items	—	(2,471)
Income (loss) from operations before income taxes and equity income of associates	(6,519)	15,569
Income tax (expense) benefit	(721)	(13,928)
Income (loss) from operations before equity income of associates	(7,240)	1,641
Equity (loss) income and impairment of associates (net of income tax)	(90)	69
Net income (loss)	(7,330)	1,710
Attributable to:		
Equity holders of Neo Cayman Holdings Ltd.	(7,110)	1,873
Non-controlling interest	(220)	(163)
	(7,330)	1,710
Loss per share data attributable to equity holders of Neo Cayman Holdings Ltd.:		
Basic	\$ (0.72)	n.a. ⁽²⁾
Diluted	\$ (0.72)	n.a. ⁽²⁾

(1) Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and Successor period from August 31, 2016 to December 31, 2016 and the related combination adjustments. See "Basis of Presentation".

(2) Not applicable as no equity instruments were issued and outstanding during the Predecessor periods of the Combined YE 2016.

(3) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in three month Successor period ended December 31, 2016 and Combined YE 2016 and had \$12,832 and \$24,150, respectively, impacts on costs of sales excluding depreciation and amortization. The negative impact on costs of sales excluding depreciation and amortization for the three month Successor period ended December 31, 2016 has not been added back to the operating income in the calculation of the three month Successor period ended December 31, 2016 results. The \$24,150 million for the Combined YE 2016, however, has already been added back to operating income in the calculation of the Combined YE 2016 results. Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related combination adjustments. See "Basis of Presentation".

Reconciliation of Operating Income, OIBDA and Adjusted OIBDA by Operating Segment

(\$000s, except volume)	Three month period ended December 31, 2016				
	Successor				
	Magnequench	C&O	Rare Metals	Corporate & Elimination	Total
Revenue	40,834	45,198	17,465	(2,489)	101,008
Sales volume (tonnes)	1,439	2,593	86	(70)	4,048
Operating (loss) income	3,298	2,543	(4,186)	(6,260)	(4,605)
Add back:					
Depreciation and amortization included in costs of sale	652	1,323	1,230	—	3,205
Depreciation and amortization	2,095	155	57	41	2,348
OIBDA	6,045	4,021	(2,899)	(6,219)	948
Adjustment to OIBDA ⁽¹⁾ :					
Acquired inventory fair value release ⁽²⁾ ...	3,492	6,182	2,859	299	12,832
Adjusted OIBDA	9,537	10,203	(40)	(5,920)	13,780
Adjusted OIBDA Margin	23.4%	22.6%	(0.2%)	n.m.	13.6%

(1) See "Management's Discussion and Analysis – Non-IFRS Financial Measures".

(2) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062 for the Rare Metals segment. A portion of this inventory was sold in the three months ended Successor period and had a \$12,832 impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

Consolidated revenue for the three month Successor period ended December 31, 2016 was \$101.0 million. By segment, this was broken down as Magnequench \$40.8 million (40.3%), C&O \$45.2 million (44.7%), Rare Metals \$17.5 million (17.3%) and inter-segment eliminations of (\$2.5) million (–2.5%). Consistent with other periods, inter-segment revenue eliminations is comprised primarily of C&O sales into the Magnequench segment for Nd/Pr materials.

Cost of sales for the three month period ended December 31, 2016 was \$82.4 million. Cost of sales is comprised primarily of rare material inputs (including rare earth concentrates, magnetic molecules purchased and rare metal feedstock) as well as direct labour, reagents, utilities and other production costs required to convert the materials into finished goods. Pursuant to the Reorganization, Neo applied IFRS 3 – Business Combinations to account for the acquisition of the inventory of the Predecessor at fair value as well as a mark-up for profit. In the three month Successor period ended December 31, 2016, a portion of the post-Reorganization inventory was sold and had a \$12.8 million negative impact on costs of sales, excluding depreciation and amortization. Excluding this, costs of sales would have been \$69.6 million in the three month Successor period ended December 31, 2016.

Consolidated depreciation and amortization in costs of sales were \$3.2 million for the three month Successor period ended December 31, 2016. This was related to equipment used in the production process.

Selling and general administration expenses were \$14.4 million for the three month Successor period ended December 31, 2016, primarily relating to personnel and related costs, including legal, accounting and other professional fees, occupancy costs and information technology costs. Professional fees incurred in the period were larger than normal due to additional fees incurred to support the separation and carve-out of the Neo businesses from the previous legal structure. These costs also included the fees to perform a carve-out audit for the years ended December 31, 2014 and 2015 and the period ended August 30, 2016.

Depreciation and amortization unrelated to production was \$2.3 million for the three month Successor period ended December 31, 2016. This was related to intangibles recorded at August 31, 2016 as a result of the adoption of IFRS 3 - Business Combinations.

For the three month Successor period ended December 31, 2016, R&D expenses were \$3.3 million related to ongoing research and development efforts with respect to new products and processes intended to drive future value, improvements and sales for the business.

Other expense for the three month Successor period ended December 31, 2016 was \$0.3 million which was not considered to be significant.

Finance costs, net were \$1.1 million for the three month Successor period ended December 31, 2016. This was related to the re-measurement of Neo's derivative liability which is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss. This liability is re-measured at each reporting period with the change in fair value recorded to finance costs.

Foreign exchange loss was \$0.4 million related primarily to the translation of monetary assets and liabilities at the balance sheet date.

Comparison of the Combined YE 2016 to the Predecessor fiscal year ended December 31, 2015 ("Predecessor YE 2015"):

(\$000s)	Combined Year ended December 31, 2016 ⁽¹⁾	Year ended December 31, 2015
	Combined	Predecessor
Revenue	382,130	396,826
Costs of sales		
Costs excluding depreciation and amortization	271,642	294,670
Depreciation and amortization	11,092	14,832
Gross profit	99,396	87,324
Expenses		
Selling, general and administrative	49,298	45,419
Depreciation and amortization	7,702	18,913
Research and development	13,552	13,257
Impairment of goodwill and other long-lived assets	—	203,928
	70,552	281,517
Operating income (loss)	28,844	(194,193)
Other income (expense)	1,343	(8,326)
Finance costs, net	(7,321)	(8,347)
Foreign exchange loss (gain)	(4,826)	7,613
Reorganization items	(2,471)	(32,187)
Income (loss) from operations before income taxes and equity income of associates	15,569	(235,440)
Income tax (expense) benefit	(13,928)	9,980
Income (loss) from operations before equity income of associates	1,641	(225,460)
Equity income (loss) and impairment of associates (net of income tax)	69	(702)
Net income (loss)	1,710	(226,162)

(1) Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and Successor period from August 31, 2016 to December 31, 2016 and the related combination adjustments. See "Basis of Presentation".

Revenue

Neo's combined revenue for the Combined YE 2016 was \$382.1 million compared to Predecessor YE 2015 of \$396.8 million; a decrease of \$14.7 million or 3.7%.

The Magnequench segment, which on average represented approximately 42% of combined revenue for the Combined YE 2016, reported revenue of \$159.2 million compared to \$185.6 million in the prior year; a decrease of 14.2% or \$26.4 million. Volumes were reasonably similar and the primary reason for the decline was due to a combination of price reductions as well as lower average rare earth prices and costs (changes in rare earth costs are largely passed through to the customer).

Revenue at the C&O segment was \$164.2 million, 2.5% or \$4.2 million lower than the Predecessor YE 2015 revenue of \$168.4 million. C&O reported higher sales volume for the Combined YE 2016, however, lower realized rare earth prices unfavorably affected the revenue line. Neo's C&O segment contributed approximately 40% of the combined external revenue for the Combined YE 2016 compared to approximately 36% in the prior year.

Revenue from the Rare Metals segment was \$70.2 million for the Combined YE 2016 compared to \$67.4 million in the Predecessor YE 2015; an increase of \$2.8 million or 4.2%. Sales from the Rare Metals segment represented approximately 18% of combined revenue for the Combined YE 2016 compared to 17% in the prior period.

Further commentary on the revenue changes in each segment are included in the discussion under the heading "*Discussion and Analysis of Reportable Segments*" below.

Costs of sales

Neo's costs excluding depreciation and amortization for the Combined YE 2016 were \$271.6 million representing a decrease of approximately \$23.1 million, or 7.8%, compared to the Predecessor YE 2015 of \$294.7 million. The Combined YE 2016 results adjust for the impact of the fair value adjustment to inventory recorded as part of the acquisition accounting that occurred on the Reorganization. A portion of this decrease is attributed to lower rare earth prices and cost inputs throughout the year. With a decrease in revenue of \$14.7 million and a costs excluding depreciation and amortization decrease of \$23.1 million, Neo benefited from product mix and operating improvements during the year.

Depreciation and amortization in costs of sales for the Combined YE 2016 was \$11.1 million, compared to Predecessor YE 2015 of \$14.8 million. The year-over-year reduction in depreciation and amortization was partly attributable to the write-off of some assets at the Silmet facility as a result of a fire at the end of the second quarter of 2015.

Further commentary on the costs of sales changes in each segment are included in the discussion under the heading "*Discussion and Analysis of Reportable Segments*" below.

SG&A expense

Neo's SG&A expense consists primarily of personnel and related costs, including legal, accounting and other professional fees, occupancy costs and information technology costs. For the Combined YE 2016, Neo's SG&A expense was \$49.3 million, an increase of \$3.9 million, or 8.6%, from the \$45.4 million expense in the Predecessor YE 2015.

For the Predecessor YE 2015 and the first eight months Predecessor period from January 1 to August 30, 2016, SG&A cost includes an allocation of the cost of services previously incurred by Molycorp, which would be required to operate Neo. Management believes these allocations reasonably reflect the expenses for Neo which have been incurred during the periods presented, including administrative and corporate costs relating to certain support functions that were provided on a centralized basis within Molycorp.

Neo incurred some additional expenses during the Combined YE 2016 that were related to the separation and emergence from the Molycorp proceedings and for legal costs to assist Neo in its defense against infringement suits filed by Rhodia. See "*Legal Contingencies*" below.

Depreciation and amortization

Depreciation and amortization unrelated to production for the Combined YE 2016 was \$7.7 million, compared to Predecessor YE 2015 of \$18.9 million. This decrease was mainly associated with the write-off of certain amortizable intangible assets at the end of 2015.

R&D

During the Combined YE 2016, R&D costs were \$13.6 million, \$0.3 million higher than the Predecessor YE 2015 of \$13.3 million. The costs remain reasonably in line with the prior year as Neo continues to invest and dedicate resources to research and develop new applications for its products, and to provide technical solutions to its customers that allow a more efficient and profitable use of its products.

Impairment of goodwill and other long-lived assets

As a result of the Reorganization process that began in Predecessor YE 2015, continuing declines in rare earth prices and other competitive factors, Neo recorded impairments of various assets in Predecessor YE 2015. This included a write down of \$45.6 million of goodwill allocated to the Magnequench segment and \$119.0 million for intangible assets. In addition, Neo impaired \$39.3 million of certain property, plant and equipment in which the carrying value was considered higher than the recoverable amount. The goodwill and intangible assets impaired were recognized as part of Molycorp's acquisition of NEM in 2012.

On August 31, 2016, when Neo acquired control of the downstream businesses of Molycorp in exchange for the partial satisfaction of allowed claims valued at \$416.9 million, Neo applied IFRS 3 - Business Combinations to account for the transfer of ownership of the Predecessor to Neo. Goodwill and intangible assets resulted from the application of IFRS 3 - Business Combinations were measured to be \$178.9 million.

Neo's annual goodwill impairment assessment did not indicate any impairment as at December 31, 2016. In addition, management did not identify any triggers for impairment as at Successor period ended June 30, 2017 that would have required an impairment assessment to be conducted prior to the year ended December 31, 2017 annual review.

Other income

Other income for the Combined YE 2016 was \$1.3 million, compared to an expense of \$8.3 million for the Predecessor YE 2015. The majority of the other income realized for the Combined YE 2016 was from the insurance proceeds received on claims associated with the fire at the Silmet facility of \$1.0 million. For the Predecessor YE 2015, Neo wrote off \$4.5 million of the rare metals production line at the Silmet facility, as well as inventory damaged by the fire, and recorded a provision of \$4.4 million for the disposal of NORM, which includes the disposal of all the materials present prior to the acquisition of the facility in 2011.

Finance costs, net

Finance costs for the Combined YE 2016 was \$7.3 million, compared to the Predecessor YE 2015 of \$8.3 million. The finance costs in both periods related primarily to both the Magnequench Term Loan and the related party loans to Molycorp and certain of its affiliates. These were extinguished by way of capital contribution prior to the Reorganization on August 30, 2016. The finance costs incurred in the Successor period August 31, 2016 to December 31, 2016 (the post-Reorganization period) were \$0.1 million and related primarily to operating revolver lines available in China and in Germany.

Foreign exchange

For the Combined YE 2016, Neo's foreign exchange loss was \$4.8 million, compared to foreign exchange income of \$7.6 million for the Predecessor YE 2015. In both periods, the foreign exchange loss and gain were primarily related to pre-Reorganization related party debt which was denominated in Canadian dollars. Changes in the Canadian dollar relative to the U.S. dollar causes impacts to foreign exchange income or loss. This related party debt was extinguished as part of the Reorganization on August 30, 2016.

Reorganization items, net

Neo reports costs directly associated with the Reorganization proceedings as reorganization items. These costs include legal and other professional advisory fees pertaining to the Chapter 11 Cases, and all adjustments made to the carrying amount of certain pre-petition liabilities reflecting claims allowed by the court. The following table represents the reorganization items incurred after the Petition Date:

(\$000s)	Eight month period ended August 30, 2016	Four month period ended August 31 to December 31, 2016	Combined Year ended December 31, 2016	Year ended December 31, 2015
	Predecessor	Successor	Combined	Predecessor
Adjustments of other claims	(63)	—	(63)	—
Severance resulting from Reorganization	1,568	—	1,568	—
Early payment premium on Magnequench Term Loan . . .	—	—	—	27,338
Write-off of springing maturity on Magnequench Term Loan	—	—	—	(3,970)
Write-off of deferred financing cost on Magnequench Term Loan	—	—	—	8,796
US trustee fee	265	—	265	—
Legal and other professional fees	701	—	701	23
Total	2,471	—	2,471	32,187

As these costs are related to the restructuring process of Molycorp that affected Neo results, these costs are not considered comparable to the normal business activity of Neo.

Income tax (expense) benefit

For the Combined YE 2016, Neo's income tax expense \$13.9 million on income from operations before income taxes of \$15.6 million as compared to income tax benefit of \$10.0 million on loss from operations before income taxes of \$235.4 million for the Predecessor YE 2015.

Neo's blended statutory effective tax rate was 22.4% for the Combined YE 2016 compared to 23.5% for the Predecessor YE 2015. Changes in the blended statutory tax rate are generally caused by different amounts of earnings in each respective jurisdiction as well as changes in local tax rates within those jurisdictions.

In addition to the blended statutory tax rates, Neo also considers and includes other factors in computing its overall tax expense, including:

- Relevant income and withholding taxes on intercompany dividends from foreign jurisdictions;
- Recognition and utilization of deferred tax assets;
- Permanent adjustments not included for tax calculation purposes; and
- Other incentives or changes in tax obligations.

In addition, during the Combined YE 2016, Neo realized \$1.9 million of income tax benefit from recognition of deferred tax assets not previously recognized related to the continued use of tax attributes to offset taxable income in the U.S. As a result of the Reorganization and accounting requirements surrounding the recognition of deferred tax assets, in the Predecessor YE 2015, Neo realized income tax expense of \$24.3 million related to the de-recognition of current and previously recorded deferred tax assets related to tax attributes in the U.S. Also, in the Predecessor YE 2015, overall tax expense was impacted by \$11.0 million with respect to the impairment of goodwill for which there is no corresponding tax effect.

Comparison of the Predecessor YE 2015 to the Predecessor fiscal year ended December 31, 2014 (“Predecessor YE 2014”):

(\$000s)	<u>Year ended December 31, 2015</u>	<u>Year ended December 31, 2014</u>
	<u>Predecessor</u>	<u>Predecessor</u>
Revenue	396,826	454,450
Costs of sales		
Costs excluding depreciation and amortization	294,670	342,610
Depreciation and amortization	14,832	19,663
Gross profit	87,324	92,177
Expenses		
Selling, general and administrative	45,419	45,511
Depreciation and amortization	18,913	24,933
Research and development	13,257	14,739
Impairment of goodwill and other long-lived assets	203,928	222,246
	<u>281,517</u>	<u>307,429</u>
Operating loss	(194,193)	(215,252)
Other expense	(8,326)	(3,283)
Finance costs, net	(8,347)	(11,496)
Foreign exchange gain	7,613	2,462
Reorganization items	(32,187)	—
Loss from operations before income taxes and equity income of associates	(235,440)	(227,569)
Income tax (expense) benefit	9,980	7,376
Loss from operations before equity income of associates	(225,460)	(220,193)
Equity income (loss) and impairment of associates (net of income tax)	(702)	(5,413)
Net loss	(226,162)	(225,606)

Revenue

Neo’s revenue for the Predecessor YE 2015, was \$396.8 million compared to Predecessor YE 2014 of \$454.5 million; a decrease of \$57.7 million or 12.7%.

The Magnequench segment, which on average represented approximately 46% of combined revenue for the Predecessor YE 2015, reported revenue of \$185.6 million compared to \$218.0 million in the Predecessor YE 2014; a decrease of 14.9% or \$32.4 million. Volumes were reasonably similar, however, revenues declined due to a combination of price reductions as well as lower average rare earth prices and costs (changes in the rare earth costs are largely passed through to the customer).

For the Predecessor YE 2015, revenue at the C&O segment was \$168.4 million, 7.4% or \$13.5 million lower than the Predecessor YE 2014 revenue of \$181.9 million. C&O reported higher sales volume for the Predecessor YE 2015, however, lower realized rare earth prices unfavorably affected the revenue line. Neo’s C&O segment contributed approximately 37% of the combined external revenue for the Predecessor YE 2015 compared to approximately 36% in the prior year.

Revenue from the Rare Metals segment was \$67.4 million for the Predecessor YE 2015 compared to \$79.4 million in the Predecessor YE 2014; a decrease of \$12.0 million or 15.1%. Sales in the latter half of 2015 were adversely affected by the impact of the fire at the Silmet facility. Sales from the Rare Metals segment represented approximately 17% of combined revenue for the Predecessor YE 2015 compared to 18% in the prior period.

Further commentary on the revenue changes in each segment are included in the discussion under the heading “*Discussion and Analysis of Reportable Segments*” below.

Costs of sales

Neo's costs excluding depreciation and amortization for the Predecessor YE 2015 was \$294.7 million, a decrease of approximately \$47.9 million, or 14.0%, compared to Predecessor YE 2014 of \$342.6 million. This variance correlates to the decrease in revenue of \$57.7 million, primarily caused by general rare earth price declines in the year. In addition, Neo benefited from product mix and operating improvements during the year.

Depreciation and amortization in costs of sales for the Predecessor YE 2015 was \$14.8 million, compared to Predecessor YE 2014 of \$19.7 million. The year-over-year reduction in depreciation and amortization was partly attributable to the write-off of some productive assets at the Silmet facility as a result of a fire at the end of the second quarter of 2015.

Further commentary on the costs of sales changes in each segment are included in the discussion under the heading "*Discussion and Analysis of Reportable Segments*" below.

SG&A expense

Neo's SG&A expense consists primarily of personnel and related costs, including legal, accounting and other professional fees, occupancy costs and information technology costs. For the Predecessor YE 2015, Neo's SG&A expenses was \$45.4 million, a decrease of \$0.1 million, or 0.2%, from the \$45.5 million expense in the Predecessor YE 2014.

For the Predecessor YE 2015 and Predecessor YE 2014, SG&A expense includes an allocation of the cost of services previously incurred by Molycorp, which would be required to operate Neo. Management believes these allocations reasonably reflect the expenses for Neo which have been incurred during the periods presented, including administrative and corporate costs related to certain support functions that were provided on a centralized basis within Molycorp.

Depreciation and amortization

Depreciation and amortization unrelated to production for the Predecessor YE 2015 was \$18.9 million, compared to the Predecessor YE 2014 of \$24.9 million. This variance was mainly associated with the write-off of certain amortizable intangible assets at the end of Predecessor YE 2015 and Predecessor YE 2014.

R&D

During the Predecessor YE 2015, Neo's R&D costs of \$13.3 million, were \$1.4 million lower than the Predecessor YE 2014. The decrease in costs primarily related to certain projects under development in each year. Neo continues to invest and dedicate resources to research and develop new applications for its products, and to provide technical solutions to its customers that allow a more efficient and profitable use of its products.

Impairment of goodwill and other long-lived assets

As a result of the Reorganization process that began in Predecessor YE 2015, continuing declines in rare earth prices and other competitive factors, Neo recorded impairments of various assets in Predecessor YE 2015. This included a write down of \$45.6 million of goodwill allocated to the Magnequench segment and \$119.0 million for intangible assets. In addition, Neo impaired \$39.3 million of certain property, plant and equipment in which the carrying value was considered higher than the recoverable amount. The goodwill and intangible assets impaired were recognized as part of Molycorp's acquisition of NEM in 2012.

Neo's annual goodwill impairment assessment indicated impairment as at Predecessor YE 2014. Neo subsequently recorded impairments of various assets. This included a write down of \$93.1 million for intangible assets (\$92.1 million relating to C&O and \$1.0 million relating to Rare Metals) and \$128.6 million of goodwill (\$127.9 million relating to C&O and \$0.7 million relating to Rare Metals). In addition, Neo impaired \$0.6 million of certain property, plant and equipment in which the carrying value was considered higher than the recoverable amount. The goodwill and intangibles assets impaired were recognized as part of Molycorp's acquisition of NEM in 2012.

Other expense

Other expense for the Predecessor YE 2015 was \$8.3 million, compared to an expense of \$3.3 million for the Predecessor YE 2014. For the Predecessor YE 2015, Neo wrote off \$4.5 million of the rare metals production line at the Silmet facility, as well as inventory damaged by the fire, and recorded a provision of \$4.4 million for the disposal of NORM, which includes the disposal of all the materials present prior to the acquisition of the Silmet facility in 2011. In the Predecessor YE 2014, Neo recorded a loss of \$3.3 million on the write off of a joint venture loan receivable.

Finance costs, net

Finance costs for the Predecessor YE 2015 was \$8.3 million, compared to Predecessor YE 2014 of \$11.5 million. The finance costs in both Predecessor YE 2015 and Predecessor YE 2014 related primarily to both the Magnequench Term Loan and the related party loans to Molycorp and certain of its affiliates. These were extinguished by way of capital contribution prior to the Reorganization on August 30, 2016.

Foreign exchange

For the Predecessor YE 2015, Neo's foreign exchange gain was \$7.6 million, compared to a gain of \$2.5 million for the Predecessor YE 2014. In both periods, the foreign exchange gains were primarily related to pre-Reorganization related party debt which was denominated in Canadian dollars. Changes in the Canadian dollar relative to the U.S. dollar causes impacts to the foreign exchange income or loss.

Reorganization items, net

Neo reports costs directly associated with the Reorganization proceedings as reorganization items. These costs include legal and other professional advisory fees pertaining to the Chapter 11 Cases in Predecessor YE 2015, and all adjustments made to the carrying amount of certain pre-petition liabilities reflecting claims allowed by the court. The following table represents the reorganization items incurred after the Petition Date:

<i>(\$000s)</i>	Year ended December 31, 2015	Year ended December 31, 2014
	Predecessor	Predecessor
Adjustments of other claims	—	—
Severance resulting from Reorganization	—	—
Early payment premium on Magnequench Term Loan	27,338	—
Write-off of springing maturity on Magnequench Term Loan	(3,970)	—
Write-off of deferred financing cost on Magnequench Term Loan	8,796	—
US trustee fee	—	—
Legal and other professional fees	23	—
Total	<u>32,187</u>	<u>—</u>

Income taxes

For the Predecessor YE 2015, Neo's income tax benefit was \$10.0 million on pre-tax losses of \$235.4 million as compared to an income tax benefit of \$7.4 million on pre-tax loss of \$227.6 million for the Predecessor YE 2014.

Neo's blended statutory effective tax rate was 23.5% for the Predecessor YE 2015 compared to 21.8% for the Predecessor YE 2014. Changes in the blended statutory tax rate are generally caused by different amounts of earnings in each respective jurisdiction as well as changes in local tax rates within those jurisdictions.

In addition to the blended statutory tax rates, Neo also considers and includes other factors in computing its overall tax expense, including:

- Relevant income and withholding taxes on intercompany dividends from foreign jurisdictions;
- Recognition and utilization of deferred tax assets;

- Permanent adjustments not included for tax calculation purposes; and
- Other incentives or changes in tax obligations

In addition, during the Predecessor YE 2015, as a result of the Reorganization and accounting requirements surrounding the recognition of deferred tax assets, Neo realized income tax expense of \$24.3 million related to the de-recognition of current and previously recorded deferred tax assets related to tax attributes in the U.S. Also, in the Predecessor YE 2015, overall tax expense was impacted by \$11.0 million with respect to the impairment of goodwill for which there is no corresponding tax effect. For the Predecessor YE 2014, overall tax expense was also impacted by \$31.1 million with respect to the impairment of goodwill for which there is no corresponding tax effect.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of \$2.9 million and \$4.3 million for the three and six months Successor periods ended June 30, 2017, respectively, and \$1.6 million and \$3.3 million for the three and six month Predecessor periods ended June 30, 2016, respectively. The majority of these capital expenditures related to capital projects performed at the ZAMR facility, Magnequench's Tianjin facility and the Silmet facility. These capital projects included a combination of maintenance capital (to assist with the continuing development and operations of Neo) and growth capital (to assist in adding new capacity or new products).

Neo capitalized expenditures of \$7.3 million and \$9.3 million for the Combined YE 2016 and Predecessor YE 2015, respectively. The majority of these capital expenditures in Combined YE 2016 related to capital projects performed at the ZAMR facility, Magnequench's Tianjin facility and the Silmet facility. The majority of the capital projects invested at the Silmet facility pertained to the continuing rebuild of rare metals production line after the fire in June 2015.

Neo capitalized expenditures of \$9.3 million and \$8.2 million for the Predecessor YE 2015 and Predecessor YE 2014, respectively. The majority of these capital expenditures related to capital projects performed at the ZAMR facility, Magnequench's Tianjin facility and the Silmet facility.

Environmental Expenditures

Neo's operations are subject to numerous and detailed environmental laws, regulations and permits, including those pertaining to employee health and safety, environmental permitting and licensing, air quality standards, waste water treatment and pollution control, handling and disposal of hazardous and radioactive materials and wastes.

The ZAMR facility was designed to make use of waste water treatment and discharge facilities of an adjacent petrochemical complex. There is a variable monthly charge based on the ZAMR facility's usage. The ZAMR facility is also obliged to pay a monthly environmental administration fee to the municipal government of Linzi, China. In both Combined YE 2016 and Predecessor YE 2015, ZAMR has paid \$0.2 million annually in administration fees.

As part of the recycling of gallium and indium scrap into saleable metal, waste material is generated during the leaching process. Neo has adequate procedures in place to ensure that these wastes are appropriately contained and disposed of.

Neo's Canadian operations in Ontario are subject to federal, provincial and local regulation and must periodically submit documentation to validate the waste disposal process throughout the year. For Combined YE 2016, waste disposal costs related to the Rare Metals production facilities totalled \$0.3 million (Predecessor YE 2015 – \$0.3 million).

Neo's Silmet facility, in its normal operations, generates hazardous NORM under its current operating permits with the Estonian government and are stored at the site in compliance with applicable laws, regulations and operating permits. As at December 31, 2015, Neo recorded a provision of \$4.4 million for the disposal of NORM and other related costs, which includes the disposal of all the materials present prior to the acquisition of the facility in 2011. This amount represents management's best estimate of the costs to be incurred by Neo to dispose of NORM at the Silmet facility. See section in this Prospectus entitled "*Description of the Business – Environmental*".

Legal contingencies

Neo operates in a high technology and advanced engineering product environment in which many patents have been issued over time. The subsidiaries of Neo are currently, and may in the future become, involved in legal proceedings alleging patent infringement. At present, Neo is defending against patent infringement legal proceedings filed in Germany, the U.K. and China. Additionally, Neo has initiated proceedings to invalidate certain patents issued in these same jurisdictions.

There are many factors that make it difficult to estimate the impact of a particular lawsuit on Neo, including, among others, being in the early stage of a proceeding, the claimant is not required to specifically identify the manner in which the patent has allegedly been infringed; damages sought that are unspecified, unsupported, unexplained or uncertain; discovery not having been started or being incomplete; the complexity of the facts that are in dispute (e.g., the analysis of the patent and a comparison to the activities of Neo is a labor-intensive and highly technical process); the difficulty of assessing novel claims or legal arguments; and the parties not having engaged in any meaningful settlement discussions. Management is required to apply judgment with respect to estimating the potential impact of the ongoing patent litigation on Neo. Potential impacts to Neo include, but are not limited to, the possibility of an injunction prohibiting Neo from manufacturing, distributing, marketing or selling products that are found to infringe on an unexpired patent; potential damages, attorney's fees and costs that Neo could be ordered to pay if it is found to have infringed on a patent; and damage to Neo's reputation with key customers, or prospective customers, from a finding of patent infringement.

Of the various lawsuits initiated and underway, in March 2016, the German Court determined that certain of Neo's products infringed two expired patents of Rhodia Chimie ("**Rhodia Chimie**") (European patent #0735984 B1/Chinese patent #ZL 94194552.9 and European patent #0863846 B1/Chinese patent #ZL 96196505.3, and management was ordered to provide information related to the calculation of damages. The Court also determined that certain of Neo's products infringe a third patent (European patent #0605274 ("**274**")). Neo filed an appeal in each of the three infringement actions and those appeals are still pending.

In September 2016, the German Federal Patent Review Court ruled in Neo's favour, invalidating 274 that it was previously found to infringe. Rhodia Chimie has appealed this judgment of invalidity, and its appeal is still pending. In October 2016, the German Federal Patent Court ruled on Neo's two other invalidity actions, significantly restricting the claims in one patent and slightly modifying the other. These two Court judgments are subject to ongoing appeals. With respect to these two expired patents for which Neo was found to infringe in Germany, specified damages being sought by Rhodia Chimie total approximately \$6 million. Management does not have sufficient information to comment on the quantum or methodology of the damages sought by Rhodia Chimie including with respect to the potential duplicity of the parts affected. Management has made an assessment, based on its interpretation of the claims as to the quantum of the appropriate provision. Such a provision is based on management's best estimate as damages are uncertain and are subject to judicial determination.

With respect to other ongoing proceedings, management’s assessment, based on its interpretation of the claims, the limited facts available at this time and independent legal advice, is that for other certain claims it is not probable that an outflow of resources will be required in settling these claims and no provision has been made. The cases for which no provision has been made are still at the stage of pre-trial proceedings and management’s assessment is based upon the information available to it currently. Future developments in these cases could cause management to change its assessment. These proceedings include:

Patent Reference	Jurisdiction of Claim	Specified Damages by Claimant
Chinese patent ZL 03817110.4	China	\$3.0 million
Chinese patent ZL 200710146613.6 . . .	China	\$2.3 million
European patent 0863846 B1	Germany	Not specified
Chinese patent ZL 94194552	China	\$0.8 million
Chinese patent ZL 96196505.3	China	\$6.8 million
Chinese patent ZL 97195463.1	China	\$0.8 million
European & UK patent 1444036 B1 . . .	UK	Not specified
Chinese patent ZL 028220781.1	China	Not specified
European & UK patent 1435338 B1 . . .	UK	Not specified
European & UK patent 1435338 B1 . . .	Germany	Not specified
European patent 0605274 B1	Germany	Not specified
European patent 0955267	Germany	Not specified

Management does not have sufficient information to comment on the quantum or methodology of the damages sought by the claimants, including with respect to potential duplicity of the parts affected. Management’s view on specified damages could be materially different than those proposed by the claimant in each case.

Neo intends to defend itself vigorously in all cases. In light of the inherent uncertainties in litigation, there can be no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued for those cases for which an estimate can be made. Losses in connection with any litigation for which management is not presently able to reasonably estimate any potential loss, or range of loss, could be material to our results of operations and financial condition.

Non-IFRS Financial Measures

This MD&A makes reference to certain non-IFRS financial measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS financial measures by providing further understanding of Neo’s and its Predecessor’s results of operations from management’s perspective. Neo’s definitions of non-IFRS measures used in this MD&A may not be the same as the definitions for such measures used by other companies in their reporting. Non-IFRS measures have limitations as analytical tools and should not be considered in isolation nor as a substitute for analysis of Neo’s financial information reported under IFRS. Neo uses non-IFRS financial measures, including “Adjusted EBITDA”, “Adjusted EBITDA Margin”, “Adjusted Net Income or Loss”, “Adjusted OIBDA”, “Adjusted OIBDA Margin”, “Cash Generated from Operating Activities excluding Reorganization activities”, “EBITDA”, “Free Cash Flow”, “Free Cash Flow Conversion” and “OIBDA” to provide investors with supplemental measures of its base-line operating performance and to eliminate items that have less bearing on operating performance or operating conditions and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. Neo believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of issuers. Neo’s management also uses non-IFRS financial measures in order to facilitate operating performance comparisons from period to period. Neo defines such financial measures as follows:

“**Adjusted EBITDA**” is defined as EBITDA before equity income (loss) and impairment of associates (net of income tax), other income (expenses), foreign exchange loss (gain), reorganization items, stock-based compensation, impairment of goodwill and other long-lived assets, acquired inventory fair value release and loss related to Molycorp’s product;

“**Adjusted EBITDA Margin**” is defined as Adjusted EBITDA divided by revenue;

“**Adjusted Net Income or Loss**” is defined as net income or loss before Reorganization items, foreign exchange loss (gain), stock-based compensation, impairment of goodwill and other long-lived assets, acquired inventory fair value release, loss related to Molycorp’s product, net of the related tax effects and adjustment to deferred tax asset;

“**Adjusted OIBDA**” is defined as OIBDA before stock-based compensation, impairment of goodwill and other long-lived assets, acquired inventory fair value release and loss related to Molycorp’s product;

“**Adjusted OIBDA Margin**” is defined as Adjusted OIBDA divided by revenue;

“**Cash Generated from Operating Activities excluding Reorganization activities**”; means cash generated from Operating Activities before cash outflows associated with reorganization activities;

“**EBITDA**” is defined as net income (loss) before finance costs, net, income tax (expense) benefit, depreciation and amortization included in cost of sales and depreciation and amortization;

“**Free Cash Flow**” is defined as Adjusted EBITDA less capital expenditures;

“**Free Cash Flow Conversion**” is defined as Free Cash Flow divided by Adjusted EBITDA; and

“**OIBDA**” is defined as operating income before depreciation and amortization.

Neo uses references to Adjusted OIBDA and Adjusted EBITDA interchangeably as the use of adjustments in each measure provides the same calculated outcome of operating performance. Management believes that the use of these adjustments (as defined in Adjusted EBITDA and Adjusted OIBDA) provides a more consistent measure of the underlying operating performance, with comparability among periods that investors may find useful. The exclusion of certain adjustments does not imply that they are non-recurring.

The following table illustrates the comparison of the Adjusted OIBDA for the three and six month Successor periods ended June 30, 2017 to the three and six month Predecessor periods ended June 30, 2016:

(\$000s)	Three month period ended June 30,				Six month period ended June 30,			
	2017		2016		2017		2016	
	Successor	Predecessor	Change	%	Successor	Predecessor	Change	%
Operating income . . .	7,806	7,362	444	6.0%	18,686	10,624	8,062	75.9%
Add:								
Depreciation and amortization included in Costs of Sales	3,150	2,658	492		4,932	5,283	(351)	
Depreciation and amortization	1,711	1,942	(231)		3,396	3,887	(491)	
OIBDA	12,667	11,962	705	5.9%	27,014	19,794	7,220	36.5%
Acquired inventory fair value release ⁽¹⁾	508	—	508		3,443	—	3,443	
Stock-based compensation ⁽²⁾	1,623	—	1,623		4,981	—	4,981	
Adjusted OIBDA	14,798	11,962	2,836	23.7%	35,438	19,794	15,644	79.0%
Revenue	101,634	94,876	6,758	7.1%	208,296	186,427	21,869	11.7%
<i>Adjusted OIBDA Margin</i>	<i>14.6%</i>	<i>12.6%</i>			<i>17.0%</i>	<i>10.6%</i>		

(1) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the three and six Successor periods ended June 30, 2017 and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

(2) Represents non-cash stock-based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization. Neo has removed this from OIBDA to provide comparability with historic periods.

Adjusted OIBDA was \$14.8 million or 14.6% of revenue for the three month Successor period ended June 30, 2017 compared to \$12.0 million or 12.6% of revenue for the three month Predecessor period ended June 30, 2016; an increase of \$2.8 million or 23.7%. For the six month Successor period ended June 30, 2017, Adjusted OIBDA was \$35.4 million or 17.0% of revenue compared to \$19.8 million or 10.6% of revenue in the prior year period; an increase of \$15.6 million or 79.0%.

Adjusted OIBDA for the six month Successor period was higher across all three business segments. A number of reasons related to the improvement in Adjusted OIBDA. With revenue up \$6.8 million and \$21.9 million in the three and six month Successor periods ended June 30, 2017 compared to the three and six month Predecessor periods ended June 30, 2016, respectively, Neo benefited from the related profit conversion on more sales across the business. Neo also benefited from the impact of sales mix. This impact includes selling more higher value products; penetrating additional high value add sales opportunities and customers; continued integration of the global sales force with products manufactured at the Silmet facility and potentially from increased international customer confidence and having successfully completed the Reorganization. Finally, Neo benefited from the continued efforts of various operational improvement programs and in particular, to the change in both increased capacity and reduced headcount and overhead costs at the Silmet facility. In addition, Neo recorded fewer abnormal production and inventory costs than it had recorded in the Predecessor periods.

Further commentary on the operating performance changes in each segment are included in the discussion under the heading “*Discussion and Analysis of Reportable Segments*” below.

The following table illustrates the comparison of the Adjusted OIBDA for the Combined YE 2016 to the Predecessor YE 2015:

(\$000s)	Combined Year ended December 31, 2016	Year ended December 31, 2015	Change	%
	Combined	Predecessor		
Operating income	28,844	(194,193)	223,037	<i>n.m.</i>
Add:				
Depreciation and amortization included in costs of sales	11,092	14,832	(3,740)	(25.2%)
Depreciation and amortization	7,702	18,913	(11,211)	(59.3%)
OIBDA	47,638	(160,448)	208,086	<i>n.m.</i>
Impairment of goodwill and other long-lived assets ⁽¹⁾	—	203,928	203,928	
Acquired inventory fair value release ⁽²⁾	—	—	—	
Loss related to Molycorp’s product ⁽³⁾	—	5,810	(5,810)	
Adjusted OIBDA	47,638	49,290	(1,652)	(3.4%)
Revenue	382,130	396,826	(14,696)	(3.7%)
<i>Adjusted OIBDA Margin</i>	<i>12.5%</i>	<i>12.4%</i>		

(1) For the Predecessor YE 2015, Neo recorded impairment of goodwill and other long-lived assets. The goodwill and intangible assets impaired were recognized as part of Molycorp’s acquisition of NEM in 2012. Neo has removed these impairments from the Predecessor YE 2015 OIBDA to provide comparability with subsequent periods.

(2) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in Combined YE 2016 and had a \$24,150 impact on costs of sales excluding depreciation and amortization. This \$24,150 million has already been added back to operating income in the calculation of the Combined YE 2016. Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related combination adjustments. See “*Basis of Presentation*”.

(3) Loss related to Molycorp’s Sorbx product assumed by Neo’s business before the Reorganization. This loss was excluded as it does not reflect the underlying profitability of the business.

Adjusted OIBDA for the Combined YE 2016 was \$47.6 million or 12.5% of revenue compared to \$49.3 million or 12.4% of revenue for the Predecessor YE 2015; a decline of \$1.7 million or 3.4%

As noted above, unregulated raw material concentrate mining, and the separation and export of rare earths in China have continued to put pressure on rare earth prices. This has an impact of lowering both revenues as well as costs of the C&O segment's rare earth products (including the main input cost of the Magnequench business).

The C&O segment reported a \$4.5 million or 22.3% improvement in Adjusted OIBDA year-over-year driven by improvements in product mix as well as continued growth of its auto catalyst business where revenues grew by 31%. This improvement was offset in part by lower Adjusted OIBDA reported at the Magnequench and Rare Metals segments. In Magnequench, the segment had reasonably steady volumes but sustained lower selling prices due to the settling of the competitive dynamic in the post-patent period (certain Magnequench patents expired in 2014). In Rare Metals, the decline in Adjusted OIBDA can largely be attributed to the fire that affected the Silmet facility in June 2015 as there was lower throughput, higher operating costs and some abnormal inventory and production costs that were experienced through 2016.

The following table illustrates the comparison of the Adjusted OIBDA for the Predecessor YE 2015 to the Predecessor YE 2014:

(\$000s)	Year ended December 31, 2015	Year ended December 31, 2014	Change	%
	Predecessor	Predecessor		
Operating income	(194,193)	(215,252)	21,059	9.8%
Add:				
Depreciation and amortization included in costs of				
sales	14,832	19,663	(4,831)	
Depreciation and amortization	18,913	24,933	(6,020)	
OIBDA	(160,448)	(170,656)	10,208	6.0%
Impairment of goodwill and other long-lived				
assets ⁽¹⁾	203,928	222,246	(18,318)	
Loss related to Molycorp's product ⁽²⁾	5,810	2,010	3,800	
Adjusted OIBDA	49,290	53,600	(4,310)	(8.0%)
Revenue	396,826	454,450	(57,624)	(12.7%)
<i>Adjusted OIBDA Margin</i>	<i>12.4%</i>	<i>11.8%</i>		

(1) For the Predecessor YE 2015 and Predecessor YE 2014, Neo recorded impairment of goodwill and other long-lived assets. The goodwill and intangible assets impaired were recognized as part of Molycorp's acquisition of NEM in 2012. Neo has removed these impairments from the Predecessor YE 2015 and Predecessor YE 2014 OIBDA to provide comparability with subsequent periods.

(2) Loss related to Molycorp's Sorbx product assumed by Neo's business before the Reorganization. This loss was excluded as it does not reflect the underlying profitability of the business.

Adjusted OIBDA for the Predecessor YE 2015 was \$49.3 million or 12.4% of revenue compared to \$53.6 million or 11.8% of revenue for the Predecessor YE 2014; a decline of \$4.3 million.

As noted above, unregulated raw material concentrate mining and the separation and export of rare earths in China have continued to put pressure on rare earth prices. This has an impact of lowering both revenues as well as costs of the C&O segment's rare earth products (including the main input cost of the Magnequench business).

The C&O segment reported a \$7.8 million or 64.0% improvement in Adjusted OIBDA year-over-year driven by improvements in product mix as well as continued growth of its auto catalyst business where revenues grew by 53%. This improvement was offset in part by lower Adjusted OIBDA reported at the Magnequench segment. In Magnequench, the segment had experienced lower volumes as well as sustained lower selling prices due to the settling of the competitive dynamic in the post-patent period (certain Magnequench patents expired in 2014). In Rare Metals, the increase in Adjusted OIBDA can largely be attributed to the improved performance through the first half of 2015 despite the impact of the fire that affected the Silmet facility in the second quarter of 2015. Prior to the fire (and with the additional sales that came from inventory post-fire), the operating results were showing significant improvements over the prior year.

Reconciliation of Net Income (Loss) to EBITDA, Adjusted EBITDA and Free Cash Flow

(\$000s)	Six month period ended June 30, 2017	Six month period ending June 30, 2016	Combined Year ended December 31, 2016 ⁽⁹⁾	Year ended December 31, 2015	Year ended December 31, 2014
	Successor	Predecessor	Combined	Predecessor	Predecessor
Net Income (Loss)	17,775	(3,311)	1,710	(226,162)	(225,606)
Add Back:					
Finance costs, net	(25)	3,921	7,321	8,347	11,496
Income tax expense (benefit)	4,067	7,477	13,928	(9,980)	(7,376)
Depreciation and amortization included in costs of sales	4,932	5,283	11,092	14,832	19,663
Depreciation, amortization . .	<u>3,396</u>	<u>3,887</u>	<u>7,702</u>	<u>18,913</u>	<u>24,933</u>
EBITDA	30,145	17,257	41,753	(194,050)	(176,890)
Adjustments to EBITDA					
Equity (income)/loss and impairment of associates (net of income tax)	(605)	(347)	(69)	702	5,413
Other (income) expense ⁽¹⁾ . . .	(3,049)	(1,944)	(1,343)	8,326	3,283
Foreign exchange loss (gain) ⁽²⁾	523	4,350	4,826	(7,613)	(2,462)
Reorganization items ⁽³⁾	—	478	2,471	32,187	—
Stock-based compensation ⁽⁴⁾	4,981	—	—	—	—
Impairment of goodwill and other long-lived assets ⁽⁵⁾ . .	—	—	—	203,928	222,246
Acquired inventory fair value release ⁽⁶⁾	3,443	—	—	—	—
Loss related to Molycorp's product ⁽⁷⁾	—	—	—	5,810	2,010
Adjusted EBITDA	35,438	19,794	47,638	49,290	53,600
<i>Adjusted EBITDA Margin</i>	<i>17.0%</i>	<i>10.6%</i>	<i>12.5%</i>	<i>12.4%</i>	<i>11.8%</i>
Less:					
Capital expenditures	<u>4,303</u>	<u>3,309</u>	<u>7,314</u>	<u>9,327</u>	<u>8,243</u>
Free Cash Flow	31,135	16,485	40,324	39,963	45,357
<i>Free Cash Flow Conversion</i> ⁽⁸⁾	<i>87.9%</i>	<i>83.3%</i>	<i>84.6%</i>	<i>81.1%</i>	<i>84.6%</i>

- (1) Represents other (income) expenses resulting from non-operational related activities primarily relating to costs and insurance recoveries as a result of the fire at the Silmet facility. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents unrealized and realized foreign exchange loss/(gain) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities, primarily related to Canadian dollar denominated related party debt that was extinguished as part of the Reorganization.
- (3) These costs are related to legal and other professional advisory fees pertaining to the Chapter 11 Cases, and all adjustments made to the carrying amount of certain pre-petition liabilities reflecting claims allowed by the court. Neo adjusted this to provide comparability with historic and subsequent periods as these are not indicative of its ongoing costs and are not operational in nature.
- (4) Represents non-cash stock-based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization. Neo has removed this from net income to provide comparability with historic periods.
- (5) For the Predecessor YE 2015 and Predecessor YE 2014, Neo recorded impairment of goodwill and other long-lived assets. The goodwill and intangibles assets impaired were recognized as part of Molycorp's acquisition of NEM in 2012. Neo has removed these impairments from the Predecessor YE 2015 and Predecessor YE 2014 EBITDA to provide comparability with subsequent periods.
- (6) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the six month Successor period ended June 30, 2017 (\$3,443) and Combined YE 2016 (\$24,150), and had an impact on net income. The amount sold in Combined YE 2016 (with tax effect of \$5,130) has already been added back to the net income. Please refer to the table that illustrates the combination of the Predecessor

period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See “Basis of Presentation”. Neo has removed this from net income to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

- (7) Loss related to Molycorp’s Sorbx product assumed by Neo’s business before the Reorganization. This loss was excluded as it does not reflect the underlying profitability of the business.
- (8) Calculated as Free Cash Flow divided by Adjusted EBITDA.
- (9) Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See “Management’s Discussion and Analysis – Basis of Presentation”.

Reconciliation of Net Income to Adjusted Net Income:

(\$000s, except per share information)	Six month period ended June 30, 2017	Six month period ended June 30, 2016	Combined year ended December 31, 2016
	Successor	Predecessor	Combined
Net income (loss)	17,775	(3,311)	1,710
Adjustments to net income (loss):			
Reorganization items ⁽¹⁾	—	478	2,471
Foreign exchange loss (gain) ⁽²⁾	523	4,350	4,826
Stock-based compensation expense ⁽³⁾	4,981	—	—
Acquired inventory fair value release ⁽⁴⁾	3,443	—	—
Tax impact of the above items	(572)	—	24
Adjustment to deferred tax asset ⁽⁵⁾	—	—	(1,941)
Adjusted net income	26,150	1,517	7,090
Attributable to:			
Equity holders of Neo Cayman Holdings Ltd. / Parent’s investment	25,787	1,562	7,253
Non-controlling interest	363	(45)	(163)
Weighted average number of common shares outstanding⁽⁶⁾:			
Basic	39,717,800	n.m. ⁽⁷⁾	n.m. ⁽⁷⁾
Diluted	40,081,852	n.m. ⁽⁷⁾	n.m. ⁽⁷⁾
Earnings per share attributable to equity shareholders of Neo Cayman:			
Basic	\$ 0.65	n.m. ⁽⁷⁾	n.m. ⁽⁷⁾
Diluted	\$ 0.64	n.m. ⁽⁷⁾	n.m. ⁽⁷⁾

- (1) These costs are related to legal and other professional advisory fees pertaining to the Chapter 11 Cases, and all adjustments made to the carrying amount of certain pre-petition liabilities reflecting claims allowed by the court. Neo adjusted this to provide comparability with historic and subsequent periods as these are not indicative of its ongoing costs and are not operational in nature.
- (2) Represent unrealized and realized foreign exchange losses/(gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities, primarily related to Canadian dollar denominated related party debt that was extinguished as part of the Reorganization.
- (3) Represents non-cash stock-based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization. Neo has removed this from net income to provide comparability with historic periods.
- (4) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the six month Successor period ended June 30, 2017 (\$3,443) and Combined YE 2016 (\$24,150), and had an impact on net income. The amount sold in Combined YE 2016 (with tax effect of \$5,130) has already been added back to the net income in the calculation of the Combined YE 2016. Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See “Basis of Presentation”. Neo has removed this from net income to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.
- (5) As a result of the Reorganization and the accounting requirements for the recognition of deferred tax assets, Neo’s U.S. subsidiaries derecognized and did not record a portion of the deferred tax assets for the Predecessor YE 2015. During the Predecessor period ended August 30, 2016, Neo’s U.S. subsidiaries benefited \$8,643 from previously unrecognized deferred tax assets.
- (6) For the purpose of basic and diluted weighted average number of common shares outstanding calculation, the number of shares have been adjusted to reflect the share split contemplated as part of the Offering.
- (7) As the equity instruments issued and outstanding at the end of Combined YE 2016 are not considered meaningful, calculation of basic and diluted earnings per share will not be provided.

Discussion and Analysis of Reportable Segments

The analysis of Neo's reportable segments, which follows the discussion of its consolidated results, presents operating results on a gross basis (i.e., before intercompany eliminations).

Three and six month Successor periods ended June 30, 2017 compared to the three and six month Predecessor periods ended June 30, 2016:

	Three month period ended June 30,				Six month period ended June 30,			
	2017 Successor	2016 Predecessor	Change	%	2017 Successor	2016 Predecessor	Change	%
<i>Magnequench</i>								
<i>(\$000s, except volume)</i>								
Operating income	8,498	6,881	1,617	23.5%	19,770	12,282	7,488	61.0%
Add:								
Depreciation and amortization included in costs of sales	1,159	597	562		867	1,187	(320)	
Depreciation and amortization	1,372	1,692	(320)		2,794	3,380	(586)	
OIBDA	11,029	9,170	1,859	20.3%	23,431	16,849	6,582	39.1%
Add:								
Acquired inventory fair value release ⁽¹⁾	32	—	32		868	—	868	
Stock-based compensation ⁽²⁾	89	—	89		296	—	296	
Adjusted OIBDA	11,150	9,170	1,980	21.6%	24,595	16,849	7,746	46.0%
<i>Adjusted OIBDA</i>								
Margin	26.4%	22.2%			27.4%	21.8%		
Revenue	42,277	41,322	955	2.3%	89,721	77,415	12,306	15.9%
Volume (tonnes)	1,426	1,380	46	3.3%	3,085	2,561	524	20.5%

(1) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$7,994 for the Magnequench segment. A portion of this inventory was sold in three and six month Successor periods ended June 30, 2017 and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

(2) Represents non-cash stock-based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization. Neo has removed this from OIBDA to provide comparability with historic periods.

For the three month Successor period ended June 30, 2017, revenue in the Magnequench segment was \$42.3 million compared to \$41.3 million in the three month Predecessor period ended June 30, 2016; an increase of \$1.0 million or 2.3%. Volume increased to 1,426 tonnes compared to 1,380 tonnes in the prior year period; an increase of 46 tonnes or 3.3%.

Volumes and revenues were exceptionally strong in the first three months of 2017 and customer's buying patterns continued into the second quarter but at a reduced rate. Growth came from a combination of the existing core programs as well as new product developments, including MQU, a new hot deformed magnet product. Magnequench has seen a change in its general product mix and end markets having now focused on more highly engineered and technical sales with a lower emphasis on other products where the competitive dynamic in the environment has changed since the expiration of certain Magnequench patents in 2014. There was significant volume growth across most of Magnequench's end markets including automotive and non-automotive as well as areas where Magnequench had identified with its future growth strategy as it transitioned the focus of its product and market portfolio after certain patents expired in 2014. Areas of significant growth included key market and focus endeavours in the electronic power steering, seat motors, trunk motors and other automotive platforms. The HDD segment showed steady volumes in the quarter.

Operating income for the three month Successor period ended June 30, 2017 increased to \$8.5 million from \$6.9 million in the three month Predecessor period ended June 30, 2016; an increase of \$1.6 million or 23.5%. On completion of the Reorganization, Neo recognized acquired inventory at fair value, which included a mark-up for

profit. The remainder of this inventory was sold in the three month Successor period ended June 30, 2017 with nominal impact on costs of sales excluding depreciation and amortization. Depreciation and amortization for the three month Successor period ended June 30, 2017 was higher by \$0.2 million compared to the three month Predecessor period ended June 30, 2016. Stock-based compensation was \$0.1 million in the three month Successor period ended June 30, 2017 compared to nil in the prior period as the Legacy Plan was initiated on the completion of the Reorganization on August 31, 2016.

Positive operating performance for Magnequench was affected by volume, product mix as well as operational improvements and efficiencies offsetting customer price reductions.

For the three month Successor period ended June 30, 2017, Adjusted OIBDA in the Magnequench segment was \$11.2 million compared to \$9.2 million in the three month Predecessor period ended June 30, 2016; an increase of \$2.0 million or 21.6%.

For the six month Successor period ended June 30, 2017, revenue in the Magnequench segment was \$89.7 million compared to \$77.4 million in the six month Predecessor period ended June 30, 2016; an increase of \$12.3 million or 15.9%. Volume increased to 3,085 tonnes compared to 2,561 tonnes; an increase of 524 tonnes or 20.5%.

Volumes were up predominantly in the first three months of the Successor period ended June 30, 2017 and continued (to a lesser extent) in the second three months of the Successor period ended June 30, 2017. As noted above, growth came from a combination of the existing core programs as well as growth in some of the new product developments, including MQU. The Magnequench segment has seen a change in its general product mix and end market set having now focused on more highly engineered and technical sales with a lower emphasis on other product sets where the competitive dynamic in the post-patent environment has changed. There was significant volume growth across most of Magnequench's end markets including automotive and non-automotive as well as areas where the Magnequench segment had identified with its future growth strategy as it transitioned the focus of its product and market portfolio after certain patents expired in 2014. The areas that grew significantly included key market and focus endeavours in the electronic power steering, seat motors, trunk motors and other automotive platforms. The HDD segment showed steady volumes in the period.

Operating income for the six month Successor period ended June 30, 2017 increased to \$19.8 million from \$12.3 million in the six month Predecessor period ended June 30, 2016; an increase of \$7.5 million or 61.0%. Operating income was affected by Neo's acquisition of inventory at fair value upon the completion of the Reorganization, which included a mark-up for profit. A portion of this inventory was sold in the six month Successor period ended June 30, 2017 and had a \$0.9 million impact on costs of sales excluding depreciation and amortization. This negatively impacted operating income. Depreciation and amortization for the six month Successor period ended June 30, 2017 lower by \$0.9 million compared to the six month Predecessor period ended June 30, 2016, partially related to the impact of adopting IFRS 3 – Business Combinations to account for the transfer of ownership of the downstream Neo businesses to Neo Cayman. Stock-based compensation was \$0.3 million in the six month Successor period ended June 30, 2017 compared to nil in the prior period as the Legacy Plan was initiated upon the completion of the Reorganization on August 31, 2016.

Consistent with the three month Successor period ended June 30, 2017, a number of factors led to the strong growth in operating performance for the six month Successor period ended June 30, 2017, including significant volume growth affecting both volume-based improvements, as well as significant continued efforts of various operational improvements.

For the six month Successor period ended June 30, 2017, Adjusted OIBDA in the Magnequench segment was \$24.6 million compared to \$16.8 million in the six month Predecessor period ended June 30, 2016, an increase of \$7.7 million or 46.0%.

	Three month period ended June 30,				Six month period ended June 30,			
	2017 Successor	2016 Predecessor	Change	%	2017 Successor	2016 Predecessor	Change	%
Chemicals & Oxides <i>(\$000s, except volume)</i>								
Operating income	4,538	5,706	(1,168)	(20.5)%	9,198	7,163	2,035	28.4%
Add:								
Depreciation and amortization included in costs of sales	834	910	(76)		1,721	1,797	(76)	
Depreciation and amortization	140	132	8		287	272	15	
OIBDA	5,512	6,748	(1,236)	(18.3)%	11,206	9,232	1,974	21.4%
Add:								
Acquired inventory fair value release ⁽¹⁾	723	—	723		2,881	—	2,881	
Stock-based compensation ⁽²⁾	178	—	178		592	—	592	
Adjusted OIBDA	6,413	6,748	(335)	(5.0)%	14,679	9,232	5,447	59.0%
<i>Adjusted OIBDA Margin</i> . . .	<i>15.5%</i>	<i>17.6%</i>			<i>17.4%</i>	<i>11.8%</i>		
Revenue	41,366	38,417	2,949	7.7%	84,432	78,520	5,912	7.5%
Volume (tonnes)	2,178	2,061	117	5.7%	4,468	4,235	233	5.5%

(1) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$14,164 for the C&O segment. A portion of this inventory was sold in three and six month Successor periods ended June 30, 2017 and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

(2) Represents non-cash stock-based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization. Neo has removed this from OIBDA to provide comparability with historic periods.

For the three month Successor period ended June 30, 2017, revenue in the C&O segment was \$41.4 million compared to \$38.4 million for the three month Predecessor period ended June 30, 2016; an increase of \$2.9 million or 7.7%. Volume increased to 2,178 tonnes compared to 2,061 tonnes in the prior year period, an increase of 117 tonnes or 5.7%.

Volumes and revenues grew strongly in the separated rare earths markets in the period as the C&O segment had increased sales in the styrene and the MLCC markets driving a mix benefit in the separated rare earths business. Volumes in the auto catalyst market were down compared to the prior year. Neo believes that this was partially a result of customers making efforts to lower their inventory levels after strong purchases in the first three months of the Successor period ended June 30, 2017.

Operating income for the three month Successor period ended June 30, 2017 decreased to \$4.5 million from \$5.7 million in the prior year; a reduction of \$1.2 million or 20.5%. On completion of the Reorganization, Neo recognized acquired inventory at fair value, which included a mark-up for profit. A portion of this inventory was sold in the three month Successor period ended June 30, 2017 and had a \$0.7 million impact on costs of sales excluding depreciation and amortization. This negatively impacted the C&O segment’s operating income. The C&O segment’s depreciation and amortization expense for the three month Successor period was relatively flat compared to the corresponding Predecessor period in 2016. Stock-based compensation was \$0.2 million in the three month Successor period ended June 30, 2017 compared to nil in the prior period as the Legacy Plan was initiated upon the completion of the Reorganization.

A number of positive factors affected the operating performance of C&O segment. Product mix within the rare earth segment yielded positive outcomes with more complex engineered molecules forming a larger portion of the sales base

than the prior year. The segment was better able to capitalize on emerging high value add sales opportunities as the restructuring process had been completed, and efforts surrounding several operational improvements continued in the Silmet facility including headcount reductions, operating cost reductions as well as global sales integration. These factors were offset by the slower sales in the auto catalyst market where customers had significant purchases in the first quarter of 2017 and this had a timing impact on sales for the second quarter of 2017. In addition, the C&O segment recorded an increase in the accounting provision and legal costs incurred with respect to ongoing patent litigation. For the three month Successor period ended June 30, 2017, Adjusted OIBDA in the C&O segment was \$6.4 million compared to \$6.7 million in the three month Predecessor period ended June 30, 2016, a decrease of \$0.3 million or 5.0%.

For the six month Successor period ended June 30, 2017, revenue in the C&O segment was \$84.4 million compared to \$78.5 million in the six month Predecessor period ended June 30, 2016; an increase of \$5.9 million or 7.5%. Volume increased to 4,468 tonnes compared to 4,235 tonnes, an increase of 233 tonnes or 5.5%.

Volumes were up in both the separated rare earths business and the auto catalyst business in the six month Successor period ended June 30, 2017 compared to the prior year. For the separated rare earth business, the drivers are generally the same as those which affected the three month Successor period ended June 30, 2017. The auto catalyst business also saw increased volumes in the first six months of 2017 although revenues were lower due to product mix.

Operating income for the six month Successor period ended June 30, 2017 increased to \$9.2 million from \$7.2 million in the prior year; an increase of \$2.0 million or 28.4%. Operating income was affected significantly by Neo's acquisition of inventory at fair value upon the completion of the Reorganization, which included a mark-up for profit. A portion of this inventory was sold in the six month Successor period ended June 30, 2017 and had a \$2.9 million impact on costs of sales excluding depreciation and amortization. This negatively impacted operating income. Depreciation and amortization was lower by \$0.1 million. Stock-based compensation was \$0.6 million in the six month Successor period ended June 30, 2017 compared to nil in the prior period as the Legacy Plan was initiated upon the completion of the Reorganization.

Consistent with the three month Successor period ended June 30, 2017, a number of factors led to strong growth in the operating performance of the segment for the six month Successor period ended June 30, 2017. Product mix within the rare earth segment yielded positive outcomes with more complex engineered molecules forming a larger portion of the sales base than the prior year. The C&O segment was better able to capitalize on emerging high value add sales opportunities as the restructuring process had been completed; efforts surrounding several operational improvements continued in the Silmet facility including headcount reductions, operating cost reductions as well as global sales integration, and the C&O segment saw significant margin growth in the auto catalyst market as the segment continues to grow in that market. In addition, the C&O segment saw fewer abnormal production costs in the current period relative to the prior year, particularly with respect to some unique premium freight costs incurred in the first three month Predecessor period ended June 30, 2016, in order to support a growing business with a strategic customer. Offsetting these factors, legal expenses, primarily related to the patent litigation with Rhodia increased in the period.

For the six month Successor period ended June 30, 2017, Adjusted OIBDA in the C&O segment was \$14.7 million compared to \$9.2 million in the prior year period, an increase of \$5.4 million or 59.0%.

	Three month period ended June 30,				Six month period ended June 30,			
	2017 Successor	2016 Predecessor	Change	%	2017 Successor	2016 Predecessor	Change	%
Rare Metals								
<i>(\$000s, except volume)</i>								
Operating income								
(loss)	1,485	(1,134)	2,619	<i>n.m.</i>	2,688	(2,607)	5,295	<i>n.m.</i>
Add:								
Depreciation and amortization included in costs of sales	1,157	1,152	5		2,344	2,299	45	
Depreciation and amortization	61	76	(15)		121	153	(32)	
OIBDA	2,703	94	2,609	<i>n.m.</i>	5,153	(155)	5,308	<i>n.m.</i>
Add back:								
Acquired inventory fair value release ⁽¹⁾	(247)	—	(247)		(306)	—	(306)	
Stock-based compensation ⁽²⁾	99	—	99		329	—	329	
Adjusted OIBDA	2,555	94	2,461	<i>n.m.</i>	5,176	(155)	5,331	<i>n.m.</i>
<i>Adjusted OIBDA</i>								
Margin	12.1%	0.6%			13.1%	(0.4)%		
Revenue	21,059	16,923	4,136	24.4%	39,480	35,212	4,268	12.1%
Volume (tonnes)	129	92	37	40.2%	222	196	26	13.3%

(1) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$4,605 for the Rare Metals segment. A portion of this inventory was sold in three and six month Successor periods ended June 30, 2017 and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

(2) Represents non-cash stock-based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization. Neo has removed this from OIBDA to provide comparability with historic periods.

For the three month Successor period ended June 30, 2017, revenue in the Rare Metals segment was \$21.1 million compared to \$16.9 million in the three month Predecessor period ended June 30, 2016; an increase of \$4.1 million or 24.4%. Volume increased to 129 tonnes compared to 92 tonnes in the prior year period, an increase of 37 tonnes or 40.2%.

Revenue growth of \$4.1 million in the three month Successor period ended June 30, 2017 can be attributed primarily to the hafnium product sales at its Buss & Buss operations which grew by \$3.4 million. Niobium at the Silmet facility also had very strong sales capitalizing on the additional capacity that has been partially reconstructed since the fire in June 2015 impacting a portion of the Rare Metals production capacity at Silmet.

Operating income for the three month Successor period ended June 30, 2017 increased to \$1.5 million from a loss of \$1.1 million in the three month Predecessor period ended June 30, 2016; an increase of \$2.6 million. On completion of the Reorganization, Neo recognized acquired inventory at fair value, which included a mark-down of profit. A portion of this inventory was sold in three month Successor period ended June 30, 2017 and had a positive \$0.2 million impact on costs of sales excluding depreciation and amortization. Depreciation and amortization for the three month Successor period ended June 30, 2017 was consistent with the prior period. Stock-based compensation was \$0.1 million in the three month Successor period ended June 30, 2017 compared to nil in the prior period as the Legacy Plan was initiated on the completion of the Reorganization on August 31, 2016.

A significant portion of the positive operating performance was affected by increased volume and product mix with very strong conversion rates on additional sales, as well as more sales of high value added products. In particular, strong improvement was seen at the Silmet facility where the combination of increased volumes, higher flow-through margins and the efforts on continued restructuring and operational improvements had a significant impact on that results at that facility. As noted above, a fire impacted the production capacity of the Silmet Rare Metals business in June 2015. During the intervening period and through the current operating period, efforts have been made to both increase the existing production capacity as well as to right-size the overhead structure of the plant in general. During the three month Successor period ended June 30, 2017, the plant saw the benefits of both being able to produce more higher value added parts through the temporarily reconstructed line as well as reduced overheads as part of an on-going operational improvement plan. The on-going operational plan included headcount reductions and reductions in certain overhead costs and contracted costs such as energy. Construction is currently underway to rebuild the total lost capacity of the Silmet Rare Metals business and the newly constructed line is expected to be fully operational by the end of 2017.

For the three month Successor period ended June 30, 2017, Adjusted OIBDA in the Rare Metals segment was \$2.6 million compared to \$0.1 million in the prior year period, an increase of \$2.5 million.

For the six month Successor period ended June 30, 2017, revenue in the Rare Metals segment was \$39.5 million compared to \$35.2 million in the six month Predecessor period ended June 30, 2016; an increase of \$4.3 million or 12.1%. Volume increased to 222 tonnes compared to 196 tonnes, an increase of 26 tonnes or 13.3%.

The drivers for increased revenue are consistent with the drivers in the three month Successor period ended June 30, 2017, being primarily additional hafnium sales in Buss & Buss and additional niobium sales at the Silmet facility.

Operating income for the six month Successor period ended June 30, 2017 increased to \$2.7 million from a loss of \$2.6 million in the six month Predecessor period ended June 30, 2016; an increase of \$5.3 million. Operating income was positively affected by the sale of inventory acquired at fair value with a mark-down of profit in the six month Successor period ended June 30, 2017 of \$0.3 million in costs of sales excluding depreciation and amortization. Depreciation and amortization for the six month Successor period ended June 30, 2017 remained consistent with the prior year period. Stock-based compensation was \$0.3 million in the six month Successor period ended June 30, 2017 compared to nil in the prior period as the Legacy Plan was initiated on the completion of the Reorganization on August 31, 2016.

Consistent with the three month Successor period ended June 30, 2017, primary factors leading to the strong growth in operating performance related primarily to changes in the Silmet facility including both increasing total capacity, selling higher value added parts and throughput and lowering total production and conversion costs. In addition to the volume, mix and the operational benefits at the Silmet facility, the Rare Metals segment also did not have the same charges related to abnormal inventory and production costs as incurred in the six month Predecessor period ended June 30, 2016. Specifically, the Rare Metals segment incurred large inventory write-downs and other abnormal costs in the six month Predecessor period ended June 30, 2016 that did not re-occur in the six month Successor period ended June 30, 2017.

For the six month Successor period ended June 30, 2017, Adjusted OIBDA in the Rare Metals segment was \$5.2 million compared to a loss of \$0.1 million in the six month Predecessor period ended June 30, 2016; an increase of \$5.3 million.

Comparison of the Combined YE 2016 to the Predecessor YE 2015:

<i>Magnequench</i>	Period from January 1, 2016 to August 30, 2016	Period from August 31, 2016 to December 31, 2016	Combined Year ended December 31, 2016	Year ended December 31, 2015	Change	%
<i>(\$000's except volume)</i>						
Operating income (loss)	18,290	3,586	21,876	(103,879)	125,755	<i>n.m.</i>
Add:						
Depreciation and amortization included in costs of sales	1,582	848	2,430	3,606	(1,176)	
Depreciation and amortization	4,482	2,217	6,699	12,659	(5,960)	
OIBDA	24,354	6,651	31,005	(87,614)	118,619	<i>n.m.</i>
Acquired inventory fair value release ⁽¹⁾	—	7,126	7,126	—	7,126	
Impairment of goodwill and other long-lived assets ⁽²⁾	—	—	—	129,668	(129,668)	
Adjusted OIBDA	24,354	13,777	38,131	42,054	(3,923)	<i>(9.3%)</i>
<i>Adjusted OIBDA Margin</i>	<i>23.5%</i>	<i>24.8%</i>	<i>23.9%</i>	<i>22.7%</i>		
Revenue	103,781	55,457	159,238	185,643	(26,405)	<i>(14.2%)</i>
Sales volume (tonnes)	3,441	1,928	5,369	5,516	(147)	<i>(2.7%)</i>

Notes

- (1) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$7,994 for the Magnequench segment. A portion of this inventory was sold in the Combined YE 2016 and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.
- (2) For the Predecessor YE 2015, Neo recorded impairment of goodwill and other long-lived assets. The goodwill and intangible assets impaired were recognized as part of Molycorp's acquisition of NEM in 2012. Neo has removed these impairments from the Predecessor YE 2015 OIBDA to provide comparability with subsequent periods.

For the Combined YE 2016, revenue in the Magnequench segment was \$159.2 million compared to \$185.6 million in the Predecessor YE 2015 prior year period, a decrease of \$26.4 million or 14.2%. Volume decreased slightly to 5,369 tonnes compared to 5,516 tonnes in the prior year period, a decrease of 147 tonnes or 2.7%.

Volumes declined slightly during the period as the segment continued to work through customer and product transition issues relating to the expiry of certain Magnequench patents in 2014. This product transition saw some grades of powder move to competitors who were now able to produce volumes without being impacted by certain Magnequench patents. At the same time, Magnequench saw increased volumes in other key highly technical products, including MQU, where Magnequench had turned its strategic focus. Revenues dropped much more significantly than volumes due primarily to the additional impact of rare earth prices impacting revenues and costs. Magnequench also incurred lower average selling prices in product areas as part of its transition strategy and in response to the expiration of certain patents.

Operating income for the Combined YE 2016 increased to \$21.9 million from a loss of \$103.9 million in the prior year, an increase of \$125.8 million. Operating income was affected significantly by Neo's acquisition of inventory at fair value upon the completion of the Reorganization, which included a mark-up for profit. A portion of this inventory was sold in the Combined YE 2016 period and had a \$7.1 million impact on costs of sales excluding depreciation and amortization. This negatively impacted the Magnequench segment's reported operating income in the Combined YE 2016. Depreciation and amortization was lower by \$7.1 million compared to the prior year, primarily due to the impairment charges recorded in Predecessor YE 2015 that effectively lowered the amount subject to amortization. In the Predecessor YE 2015, the segment impaired \$129.7 million of intangible assets and goodwill, primarily associated with the acquisition by Molycorp in 2012.

Operating performance of the segment was positively impacted by the continued growth in the new strategic technical product set, including the MQU product and continued operational improvements and efficiencies. This was offset by a lack of volume growth and price pressures primarily associated with the lower technical specification products that was the subject of additional competition since the expiration of certain patents.

For the Combined YE 2016, Magnequench's Adjusted OIBDA was \$38.1 million (23.9% of sales) compared to \$42.1 million (22.7% of sales) in the Predecessor YE 2015, a decrease of \$3.9 million or 9.3%.

	Period from January 1, 2016 to August 30, 2016	Period from August 31, 2016 to December 31, 2016	Combined Year ended December 31, 2016	Year ended December 31, 2015	Change	%
Chemicals & Oxides						
<i>(\$000s, except volume)</i>						
Operating income (loss)	9,335	(1,105)	8,230	(48,406)	56,636	<i>n.m.</i>
Add:						
Depreciation and amortization included in costs of sales . .	2,416	1,611	4,027	4,255	(228)	
Depreciation and amortization	358	201	559	5,020	(4,461)	
OIBDA	12,109	707	12,816	(39,131)	51,947	<i>n.m.</i>
Acquired inventory fair value release ⁽¹⁾	—	11,700	11,700	—	11,700	
Impairment of goodwill and other long-lived assets ⁽²⁾ . . .	—	—	—	53,362	(53,362)	
Loss related to Molycorp's product ⁽³⁾	—	—	—	5,810	(5,810)	
Adjusted OIBDA	12,109	12,407	24,516	20,041	4,475	22.3%
<i>Adjusted OIBDA Margin</i>	<i>11.5%</i>	<i>21.1%</i>	<i>14.9%</i>	<i>11.9%</i>		
Revenue	105,336	58,814	164,150	168,436	(4,286)	(2.5%)
Sales volume (tonnes)	5,661	3,307	8,968	7,886	1,082	13.7%

Notes:

- (1) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$14,164 for the C&O segment. A portion of this inventory was sold in the Combined YE 2016 and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.
- (2) For the Predecessor YE 2015, Neo recorded impairment of goodwill and other long-lived assets. The goodwill and intangible assets impaired were recognized as part of Molycorp's acquisition of NEM in 2012. Neo has removed these impairments from the Predecessor YE 2015 OIBDA to provide comparability with subsequent periods.
- (3) Loss related to Molycorp's Sorbx product assumed by Neo's business before the Reorganization. This loss was excluded as it does not reflect the underlying profitability of the business.

For the Combined YE 2016, revenue in the C&O segment was \$164.2 million, or 3% lower than revenue generated in the Predecessor YE 2015. A 14% decrease in ASP as a result of a shift in product mix, offset in part by a 14% growth in volume sold, contributed to this year-over-year decline in revenue. Volume increased to 8,968 tonnes compared to 7,886 tonnes in the prior year period; an increase of 1,082 tonnes or 13.7%.

Volumes in the separated rare earth markets remained steady as the separation quotas affecting the China facilities remained steady with the prior year. Volumes in the auto catalyst market grew significantly over the prior year as the C&O segment had continued success penetrating this market. Revenues in the Combined YE 2016 period in the separated rare earth market were down significantly compared to the prior year as continued unregulated raw material concentrate mining continued to put price pressures on rare earths in general, thus affecting both revenues and costs in the period. Revenues in the auto catalyst market grew significantly, consistent with volume growth.

Operating income for the Combined YE 2016 increased to \$8.2 million from a loss of \$48.4 million in the prior year; an increase of \$56.6 million or 117.0%. Operating income was affected significantly by Neo's acquisition of inventory at fair value upon the completion of the Reorganization, which included a mark-up for profit. A portion of this inventory was sold in the Combined YE 2016 and had a \$11.7 million impact on costs of sales excluding

depreciation and amortization. This negatively impacted the C&O segment's reported operating income in the Combined YE 2016. Depreciation and amortization was lower by \$4.7 million compared to the prior year, primarily due to the impairment charges recorded in Predecessor YE 2015 that effectively lowered the amount subject to amortization. In the Predecessor YE 2015, the segment impaired \$53.4 million of intangible assets and goodwill, primarily associated with the acquisition by Molycorp in 2012. In addition, in Predecessor YE 2015, the C&O segment recorded \$5.8 million of losses related to transfer pricing of the Sorbx product line between Molycorp (then, a related party) and the segment. There were no impairment charges or Sorbx intercompany transfers in Combined YE 2016.

Operating performance was impacted positively by the continued growth in the auto catalyst markets through Combined YE 2016. The C&O segment had identified this as one of its key growth initiatives and made significant inroads with its customers and its expanding product offerings. This was offset by the continued decrease in rare earth prices during the period and increased legal costs with respect to ongoing patent litigation issues. Although the C&O segment does have measures to adjust its selling price in response to input cost changes, there tends to be a time lag in executing those changes. As rare earth prices fell throughout the year, the C&O segment's earnings were adversely impacted.

For the Combined YE 2016, C&O's adjusted OIBDA was \$24.5 million (14.9% of sales) compared to \$20.0 million in the Predecessor YE 2015.

<i>Rare Metals</i>	Period from January 1, 2016 to August 30, 2016	Period from August 31, 2016 to December 31, 2016	Combined Year ended December 31, 2016	Year ended December 31, 2015	Change	%
<i>(\$000s, except volume)</i>						
Operating loss	(3,030)	(5,955)	(8,985)	(26,503)	17,518	66.1%
Add:						
Depreciation and amortization included in costs of sales	3,045	1,588	4,633	6,970	(2,337)	
Depreciation and amortization	202	79	281	1,036	(755)	
OIBDA	217	(4,288)	(4,071)	(18,497)	14,426	78.0%
Acquired inventory fair value release ⁽¹⁾	—	5,025	5,025	—	5,025	
Impairment of goodwill and other long-lived assets ⁽²⁾	—	—	—	20,898	(20,898)	
Adjusted OIBDA	217	737	954	2,401	(1,447)	(60.3%)
<i>Adjusted OIBDA Margin</i>	<i>0.5%</i>	<i>3.0%</i>	<i>1.4%</i>	<i>3.6%</i>		
Revenue	45,937	24,282	70,219	67,395	2,824	4.2%
Sales volume (tonnes)	250	123	373	425	(52)	(12.2%)

Notes:

- (1) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$4,605 for the Rare Metals segment. A portion of this inventory was sold in the Combined YE 2016 and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.
- (2) For the Predecessor YE 2015, Neo recorded impairment of goodwill and other long-lived assets. The goodwill and intangible assets impaired were recognized as part of Molycorp's acquisition of NEM in 2012. Neo has removed these impairments from the Predecessor YE 2015 OIBDA to provide comparability with subsequent periods.

For the Combined YE 2016, revenue in the Rare Metals segment was \$70.2 million compared to \$67.4 million in the Predecessor YE 2015 prior year period, an increase of \$2.8 million or 4.2%.

Revenues increased throughout the Rare Metals segment, with the exception of the Silmet operation which was still recovering from a fire in June 2015. The fire impacted a significant amount of the rare metals production capability as it impacted one of the early processing steps. Accordingly, production downstream, although not directly

affected by the fire, was also impacted. In the first few months after the fire in 2015, the facility was still able to continue to make sales using inventory located further down in the production process. In the latter months of 2015 and throughout 2016, temporary production capability and other alternatives were implemented to enable some level of continued production but at a reduced rate. Accordingly, this lower capacity available in 2016, negatively impacted the Rare Metals segment's revenues.

Operating loss for the Combined YE 2016 was \$9.0 million compared to a loss of \$26.5 million in the Predecessor YE 2015 period; reducing the loss by \$17.5 million in the period. Operating results were affected significantly by Neo's acquisition of inventory at fair value upon the completion of the Reorganization, which included a mark-up for profit. A portion of this inventory was sold in the Combined YE 2016 and had a \$5.0 million impact on costs of sales excluding depreciation and amortization. This negatively impacted the Rare Metals segment's reported operating income in the Combined YE 2016. Depreciation and amortization was lower by \$3.1 million compared to the prior year, primarily due to the impairment charges recorded in the Predecessor YE 2015 that effectively lowered the amount subject to amortization. In the Predecessor YE 2015, the segment impaired \$20.9 million of intangible assets and goodwill, primarily associated with the acquisition by Molycorp in 2012.

Operating performance of the segment was positively impacted by most of the operating facilities with increased revenues and positive conversion and continuous improvement efforts. These were offset by the impact of the fire at the Silmet facility which had an effect in both the Combined YE 2016 as well as the second half of the Predecessor YE 2015. The fire in the second quarter of Predecessor YE 2015 had an impact of lower revenue and profit conversion in 2016 as well as significant abnormal production costs and under absorbed overheads throughout Combined YE 2016. In addition, the segment recorded a large cost in Combined YE 2016 with respect to inventory that had been impacted by the fire that was no longer considered fully recoverable.

For the Combined YE 2016, Rare Metal's Adjusted OIBDA was \$1.0 million (1.4% of revenue) compared to \$2.4 million (3.6% of revenue) for the Predecessor YE 2015, a decrease of \$1.4 million or 60.3%.

Comparison of the Predecessor YE 2015 to the Predecessor YE 2014:

<u>Magnequench</u>	<u>Year ended December 31, 2015</u>	<u>Year ended December 31, 2014</u>	<u>Change</u>	<u>%</u>
<i>(\$000s, except volume)</i>				
Operating (loss) income	(103,879)	38,470	(142,349)	<i>n.m.</i>
Add:				
Depreciation and amortization included in costs of sales	3,606	4,018	(412)	
Depreciation and amortization	<u>12,659</u>	<u>12,612</u>	<u>47</u>	
OIBDA	(87,614)	55,100	(142,714)	<i>n.m.</i>
Add:				
Impairment of goodwill and other long-lived assets ⁽¹⁾	129,668	174	129,494	
Adjusted OIBDA	<u>42,054</u>	<u>55,274</u>	<u>(13,220)</u>	<i>(23.9%)</i>
<i>Adjusted OIBDA Margin</i>	<i>22.7%</i>	<i>25.4%</i>		
Revenue	185,643	218,032	(32,389)	<i>(14.9%)</i>
Sales volume (tonnes)	5,516	5,694	(178)	<i>(3.1%)</i>

Notes:

(1) For the Predecessor YE 2015, Neo recorded impairment of goodwill and other long-lived assets. The goodwill and intangible assets impaired were recognized as part of Molycorp's acquisition of NEM in 2012. Neo has removed these impairments from the Predecessor YE 2015 OIBDA to provide comparability with subsequent periods.

For the Predecessor YE 2015, revenue in the Magnequench segment was \$185.6 million compared to \$218.0 million in the Predecessor YE 2014 prior year period, a decrease of \$32.4 million or 14.9%. Volume decreased slightly to 5,516 tonnes compared to 5,694 tonnes in the prior year period, a decrease of 178 tonnes or 3.1%.

Volumes declined slightly during the period as the segment continued to work through customer and product transition issues relating to the expiry of certain Magnequench patents in 2014. This product transition saw some grades of powder move to competitors who were now able to produce volumes without being impacted by certain Magnequench patents. At the same time, Magnequench saw increased volumes in other key highly technical products, including MQU, where the segment had turned its strategic focus. Volumes in the HDD market were also lower due to changes in the end market for HDD units with the shift to solid state drives. Revenues dropped much more significantly than volumes due primarily to the additional impact of rare earth prices impacting revenues and costs. The Magnequench segment also incurred lower average selling prices in product areas as part of its transition strategy since the expiration of certain patents, thus, causing significant margin tightening.

Operating loss for the Predecessor YE 2015 was \$103.9 million compared to operating profit of \$38.5 million in Predecessor YE 2014; a decrease of \$142.3 million. Depreciation and amortization was lower by \$0.4 million compared to the prior year. In the Predecessor YE 2015, the Magnequench segment impaired \$129.7 million of intangible assets and goodwill, primarily associated with the acquisition by Molycorp in 2012.

Operating performance of the segment was positively impacted by the continued growth in the new strategic technical product set, including the MQU product. This was offset by the general impact of the expiration of certain Magnequench patents on the business, including the transition of volume to other competitors, loss of lower technical parts and more competitive selling prices, which all caused a decrease to margins.

For the Predecessor YE 2015, Magnequench's Adjusted OIBDA was \$42.1 million (22.7% of sales) compared to \$55.3 million (25.4% of sales) in the Predecessor YE 2014, a decrease of \$13.2 million or 23.9%.

<i>Chemicals & Oxides</i>	Year ended December 31, 2015	Year ended December 31, 2014	Change	%
<i>(\$000s, except volume)</i>				
Operating loss	(48,406)	(227,188)	178,782	78.7%
Add:				
Depreciation and amortization included in costs of sales	4,255	5,731	(1,476)	
Depreciation and amortization	<u>5,020</u>	<u>11,670</u>	<u>(6,650)</u>	
OIBDA	(39,131)	(209,787)	170,656	81.3%
Add:				
Impairment of goodwill and other long-lived assets ⁽¹⁾	53,362	219,994	(166,632)	
Loss related to Molycorp's product ⁽²⁾	<u>5,810</u>	<u>2,010</u>	<u>3,800</u>	
Adjusted OIBDA	<u>20,041</u>	<u>12,217</u>	<u>7,824</u>	64.0%
<i>Adjusted OIBDA Margin</i>	<i>11.9%</i>	<i>6.7%</i>		
Revenue	168,436	181,937	(13,501)	(7.4%)
Sales volume (tonnes)	7,886	6,605	1,281	19.4%

Note:

- (1) For the Predecessor YE 2015, Neo recorded impairment of goodwill and other long-lived assets. The goodwill and intangible assets impaired were recognized as part of Molycorp's acquisition of NEM in 2012. Neo has removed these impairments from the Predecessor YE 2015 OIBDA to provide comparability with subsequent periods.
- (2) Loss related to Molycorp's Sorbx product assumed by Neo's business before the Reorganization. This loss was excluded as it does not reflect the underlying profitability of the business.

For the Predecessor YE 2015, revenue in the C&O segment was \$168.4 million compared to \$181.9 million in the Predecessor YE 2014 prior year period; a decrease of \$13.5 million or 7.4%. Volume increased to 7,886 tonnes compared to 6,605 tonnes in the prior year period, an increase of 1,281 tonnes or 19.4%.

Volumes in the separated rare earth markets increased slightly due to changes in total sales (China quotas are production based) and increases in capacity in the rare earth portion of the Silmet facility. Volumes in the auto catalyst market grew significantly over the prior year as the C&O segment placed significant focus on penetrating and growing this market. Revenues in the Predecessor YE 2015 in the separated rare earth market were down significantly

compared to the prior year as continued unregulated raw material concentrate mining continued to put price pressures on rare earths in general, thus affecting both revenues and costs in the period. Revenues in the auto catalyst market grew significantly, consistent with volume growth.

Operating loss for the Predecessor YE 2015 was reduced to \$48.4 million compared to a loss of \$227.2 million in the prior year; a reduction in losses of \$178.8 million. Depreciation and amortization was lower by \$8.1 million compared to the prior year, primarily due to the impairment charges recorded in 2014 that effectively lowered the amount subject to amortization. In the Predecessor YE 2015, the segment impaired \$53.4 million of intangible assets and goodwill, primarily associated with the acquisition by Molycorp in 2012 in addition to the \$220.0 million impairment charge recorded in the Predecessor YE 2014. In addition, in Predecessor YE 2015, the segment recorded \$5.8 million of losses related to transfer pricing of the Sorbx product line between Molycorp (then, a related party) and the segment compared to a loss of \$2.0 million on these related party transfers in the prior year.

Operating performance was impacted positively by the increased volumes in the rare earth separation markets and the ramping growth in the auto catalyst markets through 2015. The C&O segment had identified the auto catalyst market as one of its key growth initiatives and made significant inroads with its customers and its expanding product offerings. This was offset by the continued decrease in rare earth prices during the period. Although the C&O segment does have measures to adjust its selling price in response to input cost changes, there tends to be a time lag in executing those changes. As rare earth prices fell throughout the year, the C&O segment's earnings were adversely impacted.

For the Predecessor YE 2015, C&O's Adjusted OIBDA was \$20.0 million (11.9% of sales) compared to \$12.2 million (6.7% of sales) in the Predecessor YE 2014, an increase of \$7.8 million or 64.0%.

<u>Rare Metals</u>	<u>Year ended</u> <u>December 31,</u> <u>2015</u>	<u>Year ended</u> <u>December 31,</u> <u>2014</u>	<u>Change</u>	<u>%</u>
<i>(\$000s, except volume)</i>				
Operating loss	(26,503)	(10,817)	(15,686)	(145.0%)
Add:				
Depreciation and amortization included in costs of sale	6,970	9,914	(2,944)	
Depreciation and amortization	<u>1,036</u>	<u>429</u>	<u>607</u>	
OIBDA	(18,497)	(474)	(18,023)	(3802.3%)
Add:				
Impairment of goodwill and other long-lived assets ⁽¹⁾	<u>20,898</u>	<u>2,078</u>	<u>18,820</u>	
Adjusted OIBDA	<u>2,401</u>	<u>1,604</u>	<u>797</u>	49.7%
<i>Adjusted OIBDA Margin</i>	<i>3.6%</i>	<i>2.0%</i>		
Revenue	67,395	79,355	(11,960)	(15.1%)
Sales volume (tonnes)	425	410	15	3.7%

Note:

(1) For the Predecessor YE 2015, Neo recorded impairment of goodwill and other long-lived assets. The goodwill and intangible assets impaired were recognized as part of Molycorp's acquisition of NEM in 2012. Neo has removed these impairments from the Predecessor YE 2015 OIBDA to provide comparability with subsequent periods.

For the Predecessor YE 2015, revenue in the Rare Metals segment was \$67.4 million compared to \$79.4 million in the Predecessor YE 2014 prior year period, a decrease of \$12.0 million or 15.1%.

Revenues growth in the Rare Metals segment, was significantly impacted by interrupted operations at the Silmet facility. In June 2015, the fire at the Silmet facility impacted a significant amount of the Rare Metals production capability as it impacted one of the early processing steps. Accordingly, production downstream, although not directly affected by the fire, was also impacted. In the first few months after the fire in 2015, the facility was still able to continue to make sales using inventory located further down in the production process but at a limited level.

Operating loss for the Predecessor YE 2015 was \$26.5 million compared to a loss of \$10.8 million in the Predecessor YE 2014; increasing the loss by \$15.7 million in the year. Depreciation and amortization was lower by \$2.3 million compared to the prior year, primarily due to the impact of the fire causing reduced asset levels for which

to apply depreciation. In the Predecessor YE 2015, the Rare Metals segment impaired \$20.9 million of intangible assets and goodwill, primarily associated with the acquisition by Molycorp in 2012 compared to \$2.1 million in the Predecessor YE 2014.

Operating performance of the segment, particularly at the Silmet facility, was showing very strong signs of operating improvements during the early part of the 2015 year. Although the Rare Metals segment was able to continue some sales and operations after the fire in June 2015, by the latter half of 2015, the impact of the fire became more pronounced on operations. Despite this, the operating gains during the year enabled an overall improved performance on an adjusted basis for the segment in Predecessor YE 2015 compared to the prior Predecessor YE 2014.

For the Predecessor YE 2015, Rare Metal's Adjusted OIBDA was \$2.4 million (3.6% of sales) compared to \$1.6 million (2.0% of sales) in the Predecessor YE 2014, an increase of \$0.8 million or 49.7%.

Quarterly Information

(\$000s, except for earnings per share information)

	Q2	Q1	Q4	Q3	Q2	Q1
	2017	2017	2016	2016	2016	2016
	Successor	Successor	Successor	Combined ⁽¹⁾	Predecessor	Predecessor
Revenue	101,634	106,662	101,008	94,695	94,876	91,551
Net income (loss) attributable to equity holders	9,294	8,178	(7,110)	(6,546)	1,111	(4,377)
Earnings per share data attributable to equity holders of Neo Cayman Holdings Ltd.:						
Basic EPS	\$ 0.93	\$ 0.83	\$ (0.72)	n.a.	n.a.	n.a.
Diluted EPS	\$ 0.93	\$ 0.81	\$ (0.72)	n.a.	n.a.	n.a.
Operating income (loss)⁽²⁾	7,806	10,880	(4,605)	(1,325)	7,362	3,262
Add:						
Depreciation and amortization included in costs of sales	3,150	1,782	3,205	2,604	2,658	2,625
Depreciation and amortization	1,711	1,685	2,348	1,467	1,942	1,945
OIBDA	12,667	14,347	948	2,746	11,962	7,832
Add:						
Acquired inventory fair value release ⁽³⁾	508	2,935	12,832	11,318	—	—
Stock-based compensation ⁽⁴⁾	1,623	3,358	—	—	—	—
Adjusted OIBDA	14,798	20,640	13,780	14,064	11,962	7,832
<i>Adjusted OIBDA Margin</i>	<i>14.6%</i>	<i>19.4%</i>	<i>13.6%</i>	<i>14.9%</i>	<i>12.6%</i>	<i>8.6%</i>

Notes:

- (1) The results for the three months period from July 1 to September 30, 2016 represent the operations of the Predecessor for July 1 to August 30, 2016 combined with the operations of the Successor from August 31 to September 30, 2016.
- (2) Operating income (loss) in 2016 is before combination adjustments.
- (3) In accordance with IFRS 3 – Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the various periods after August 30, 2016 and had an impact on OIBDA. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with various periods.
- (4) Represents non-cash stock-based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization. Neo has removed this from OIBDA to provide comparability with historic periods.

Revenue over the prior six quarters has shown a general positive growth trend over the period with a particularly higher revenue in the first quarter of 2017. Although rare earth prices continue to move and thus impact revenues and costs, movements in the past six quarters have been smaller than the movements prior to 2016.

Following the Reorganization in August 2016, Neo has been able to better focus on the core downstream operations that form the Neo business. The outcomes of these efforts include penetration of more high value, high engineered products sales; greater focus on integration into the Neo global sales force; operational improvements,

including headcount reductions, contract renegotiations, increased throughput and operational efficiencies, cost cutting exercises and a renewed strategic focus on key areas for future growth. Neo has seen volumes rise and prices begin to settle within the Magnequench business as much of the pricing since the expiration of certain patents, and competitive dynamics have now settled into place. Neo has seen strong growth in the auto catalyst business segment with the ability to deliver high value add and highly engineered products to its customers. Lastly, Neo continues efforts to increase the capacity of the rare metals line at the Silmet facility that was impacted by the fire in 2015.

Adjusted OIBDA over the prior six quarters have also shown a positive growth trend over the period with a particularly higher quarter in the first fiscal quarter of 2017.

Liquidity and Capital Resources

Six month Successor period ended June 30, 2017 compared to six month Predecessor period ended June 30, 2016:

<i>(\$000s)</i>	Six month period ended June 30, 2017	Six month period ended June 30, 2016
	Successor	Predecessor
Cash flow		
Cash provided by operating activities	9,922	39,692
Cash used by investing activities	(4,294)	(18,309)
Cash used by financing activities	(8,169)	(15,344)
	June 30, 2017	December 31, 2016
<i>(\$000s)</i>	Successor	Successor
Financial position – as at		
Cash and cash equivalents	77,970	79,408
Property, plant and equipment	85,895	87,818
Total assets	524,082	513,751
Bank advances and other short term debt	—	7,925
Long-term debt	—	—

At June 30, 2017, Neo had cash and cash equivalents of \$78.0 million, compared to \$79.4 million as at December 31, 2016. In addition, Neo has approximately \$15.4 million available under its credit facilities with no amounts drawn. Neo's financial position and ability to generate cash from its operations in the short and long term remains sound.

The primary cash inflows and outflows contributing to the change from December 31, 2016 were:

Inflows

- \$35.3 million cash from operations before change in working capital;

Outflows

- \$18.5 million net change in working capital;
- \$7.9 million repayment of short-term borrowings;
- \$4.3 million of capital spending; and
- \$7.0 million of income taxes paid.

Cash Provided by Operating Activities

Net cash provided by operating activities was \$9.9 million during the six month Successor period ended June 30, 2017, as compared to \$39.7 million in the corresponding Predecessor period. The principal reasons for the decrease in cash generated from operating activities during the period was due to the change in working capital from a source of

cash of \$25.0 million in 2016 to a use of cash of \$18.5 million in 2017, a change of \$43.5 million. Outside of this, cash provided by operating activities grew by \$13.7 million reflecting the higher operating performance in the period.

Of the \$18.5 million net cash used in non-cash working capital for the six month Successor period ended June 30, 2017, \$5.6 million was used to settle legal and other professional advisory fees related to the Chapter 11 Cases assumed by Neo on completion of the Reorganization. Additionally, increases in accounts receivables due to higher sales and decreases in accounts payable have also contributed to higher non-cash working capital. For the Predecessor period ended June 30, 2016, the source of cash from working capital changes was primarily contributed by a \$19.9 million reduction in inventory and an increase in accounts payable and accrued charges for legal and other professional advisory fees related to the Chapter 11 Cases.

Cash Used in Investing Activities

For the six month Successor period ended June 30, 2017, net cash used in investing activities was \$4.3 million, as compared to \$18.3 million in the six month Predecessor period ended June 30, 2016, a change of \$14.0 million. In the six month Successor period ended June 30, 2017, cash used in investing activities for capital expenditures was \$4.3 million for the six month Successor period ended June 30, 2017 compared to \$3.3 million in the prior period; an increase of \$1.0 million. These expenditures related primarily to operating capacity expansion at the ZAMR facility, capital maintenance, as well as continuing to rebuild the rare metals production line at the Silmet facility.

In the six month Predecessor period ended June 30, 2016, \$15.0 million of the cash used in investing activities was used to pay certain related party loans. These loans were extinguished by way of capital contributed in the Reorganization process of Neo.

Cash Used in Financing Activities

Net cash used in financing activities during the six month Successor period ended June 30, 2017 was \$8.1 million, as compared to \$15.3 million in the corresponding period in 2016. In the first half of 2017, Neo repaid \$7.9 million of the bank advances in China and Germany. In addition, Neo also distributed a \$0.2 million dividend to its non-controlling interest partners. In the prior period, \$9.7 million of cash was used to repay the bank advances in China and Germany, \$0.6 million was distributed as a dividend to Neo's non-controlling interest partners, and \$5.0 million was distributed to parent's investment in the first half of 2016 (prior to restructuring). As a result, net cash outflows from financing activities in the six month Successor period ended June 30, 2017 was \$7.2 million lower than the six month Predecessor period ended June 30, 2016.

<i>Cash and cash equivalents by country at June 30, 2017</i>	<i>(\$000's)</i>
China (including Hong Kong)	48,722
Estonia	8,061
United States	4,122
Canada	2,754
Japan	711
United Kingdom	1,936
Germany	966
Singapore	3,362
Barbados	5,235
Other	2,101
Total cash and cash equivalents	<u>77,970</u>

A portion of the total cash on hand held by Neo's foreign operating subsidiaries relate to long-term investment and undistributed earnings that are considered indefinitely reinvested in these foreign subsidiaries. If such cash were repatriated, additional tax expense may result, although the calculation of such additional taxes is not practicable.

In addition to cash on hand, the primary sources of liquidity for Neo's domestic and foreign subsidiaries are cash provided by operations and, in the case of the activities in China and Germany, borrowing under certain bank loans. From time to time, the sources of liquidity for Neo's operating subsidiaries may be supplemented by intercompany

loans in the form of interest bearing unsecured promissory notes. Neo's operating subsidiaries' liquidity generally is used to fund their working capital requirements, investments, capital expenditures and third-party debt service requirements.

Comparison of the Combined YE 2016 to the Predecessor YE 2015:

(\$000s)	Period from January 1, 2016 to August 30, 2016	Period from August 31, 2016 to December 31, 2016	Combined Year ended December 31, 2016	Year ended December 31, 2015
	Predecessor	Successor	Combined ⁽¹⁾	Predecessor
Cash flow				
Cash provided by operating activities	48,536	(6,515)	42,021	51,218
Cash used by investing activities	(34,308)	(3,006)	(37,314)	(25,020)
Cash used by financing activities	(24,311)	107	(24,204)	(30,719)
			December 31, 2016	December 31, 2015
			Successor	Predecessor
Financial position – as at				
Cash and cash equivalents			79,408	101,302
Property, plant and equipment			87,818	86,401
Total assets			513,751	620,286
Bank advances and other short term debt			7,925	101,931
Long-term debt			—	1,821

(1) The results for the eight month period from January 1 to August 30, 2016 represent the cash flow activities of the Predecessor and the results after August 31, 2016 represent the cash flow activities of the Successor.

For the purpose of performing a comparison, cash provided by operating activities, cash used in investing and financing activities for the Combined YE 2016 were prepared by combining the cash provided by operating activities, cash used in investing and financing activities of the Predecessor from January 1 to August 30, 2016 and the Successor from August 31 to December 31, 2016. No combination adjustment was made to combine the cash inflow and outflow activities of the two periods.

As at Combined YE 2016, Neo had cash of \$79.4 million, compared to \$101.3 million as at Predecessor YE 2015. As at Combined YE 2016, Neo had bank advances and short term debt of \$7.9 million compared to \$101.9 million as at Predecessor YE 2015. As at Combined YE 2016, Neo had long-term debt of nil compared to \$1.8 million as at Predecessor YE 2015. As at August 30, 2016, as part of the Reorganization, \$95.8 million of the bank advances and short term debt from Predecessor YE 2015 were extinguished.

The primary cash inflows and outflows contributing to the change from Predecessor YE 2015 were:

Inflows

- \$36.1 million cash from operations before change in working capital;
- \$27.3 million net change in working capital;

Outflows

- \$14.1 million contribution to parent's investment;
- \$2.3 million repayment of short-term borrowings;
- \$30.0 million of lending to related parties;
- \$6.7 million of repayment of borrowing from related parties;

- \$7.3 million of capital spending;
- \$14.7 million of income taxes paid;
- \$6.7 million of interest paid;
- \$0.6 million dividend paid to non-controlling interest; and
- \$0.5 million on a share buyback from minority shareholders.

Cash Provided by Operating Activities

During the Combined YE 2016, Neo's cash provided by operating activities was \$42.0 million compared to \$51.2 million net cash generated in the corresponding Predecessor period. Cash generated from working capital in Combined YE 2016 was \$27.3 million compared to \$14.9 million in Predecessor YE 2015.

In addition to operational performance and working capital, the most significant change in cash was as a result of Neo paying legal and other professional advisory fees related to the Chapter 11 Cases assumed by Neo on completion of the Reorganization of \$25.4 million in Combined YE 2016.

Cash Used in Investing Activities

For the Combined YE 2016, net cash used in investing activities was \$37.3 million, as compared to \$25.0 million net cash used in investing activities for the Predecessor YE 2015. For the Combined YE 2016, the primary changes in cash used in investing activities related to the acquisition of property, plant and equipment for \$7.3 million and changes in related party loans of \$30.0 million (net). For the Predecessor YE 2015, the primary uses of cash in investing activities were related to the acquisition of property, plant and equipment for \$9.3 million and changes to related party loans for \$15.9 million (net). The related party loans were extinguished as part of the Reorganization on August 30, 2016 and do not exist for the period post-Reorganization being from August 31, 2016 to date.

Cash Used in Financing Activities

Net cash used in financing activities during the Combined YE 2016 was \$24.2 million, as compared to \$30.7 million in the corresponding Predecessor YE 2015. For the Combined YE 2016, Neo repaid \$2.3 million of its bank advances in China and Germany, distributed a \$0.6 million dividend to its non-controlling interest partners, spent \$0.5 million in a share buyback from minority shareholders, repaid \$6.7 million in related parties loans and distributed \$14.1 million to parent's investment. In the Predecessor YE 2015, Neo had borrowed \$1.4 million in bank advances, made a net \$26.4 million repayment on related party loans, distributed a \$1.5 million as a dividend to its non-controlling interest partners, and distributed \$4.0 million to parent's investment. The related party loans and amounts related to parent's net investment were extinguished as part of the Reorganization on August 30, 2016 and do not exist for the period post-Reorganization being August 31, 2016 to date.

Comparison of the Predecessor YE 2015 to the Predecessor YE 2014:

(\$000s)	Year ended December 31, 2015	Year ended December 31, 2014
	Predecessor	Predecessor
Cash flow		
Cash provided by operating activities	51,218	54,006
Cash used by investing activities	(25,020)	(68,111)
Cash used by financing activities	(30,719)	(15,611)

<i>(\$000s)</i>	December 31, 2015	December 31, 2014
	Predecessor	Predecessor
Financial position – as at		
Cash and cash equivalent	101,302	107,678
Property, plant and equipment	86,401	132,304
Total assets	620,286	874,374
Bank advances and other short term debt	101,931	9,176
Long-term debt	1,821	52,909

As at Predecessor YE 2015, Neo had cash of \$101.3 million, compared to \$107.7 million as at Predecessor YE 2014. As at Predecessor YE 2015, Neo had bank advances and short term debt of \$101.9 million and long-term debt of \$1.8 million compared to \$9.2 million and \$52.9 million, respectively, as at Predecessor YE 2014. The primary cause for the increase and change in bank advances and other short term debt and the long-term debt is a result of the Chapter 11 filing and the early payment premium associated with the Magnequench Term Loan.

The primary cash inflows and outflows contributing to the change from Predecessor YE 2014 were:

Inflows

- \$58.1 million cash from operations before changes in working capital;
- \$14.9 million net change in working capital;
- \$1.4 million from borrowing of bank advances;

Outflows

- \$4.0 million contribution to parent's investment;
- \$15.9 million of lending to related parties;
- \$26.4 million repayment of borrowing, net of loan proceeds from related parties;
- \$9.3 million of capital spending;
- \$13.9 million of income taxes paid;
- \$7.9 million of interest paid; and
- \$1.5 million dividend paid to non-controlling interest.

Cash Provided by Operating Activities

During the Predecessor YE 2015, Neo's cash provided by operating activities was \$51.2 million compared to \$54.0 million net cash generated in the corresponding Predecessor YE 2014.

In addition to Neo's operating performance, the most significant change in cash provided from operating activities was due to Neo's success in lowering its inventory balances during the Predecessor YE 2015. This was partially due to lower rare earth prices (less lowered inventoried cost) and managing lower inventory levels.

Cash Used in Investing Activities

For the Predecessor YE 2015, net cash used in investing activities was \$25.0 million, as compared to \$68.1 million net cash used in investing activities for the corresponding Predecessor YE 2014. For the Predecessor YE 2015, the primary changes in cash used in investing activities related to the acquisition of property, plant and equipment for \$9.3 million and changes in related party lending of \$15.9 million (net). For the Predecessor YE 2014, the primary uses of cash in investing activities were related to the acquisition of property, plant and equipment for \$8.2 million and changes to related party lending for \$62.2 million (net).

Cash from Financing Activities

Net cash used in financing activities during the Predecessor YE 2015 was \$30.7 million, as compared to \$15.6 million in the corresponding Predecessor YE 2014. For the Predecessor YE 2015, Neo borrowed \$1.4 million of bank advances in China and Germany, distributed a \$1.5 million dividend to its non-controlling interest partners, repaid \$29.4 million in related parties borrowings, received related party loan proceeds of \$3.0 million and distributed \$4.0 million to parent's investment. For the Predecessor YE 2014, Neo had repaid \$7.4 million in bank advances, made a net \$36.4 million repayment on related party borrowings, distributed a \$1.3 million dividend to its non-controlling interest partners and distributed \$27.0 million to parent's investment. In addition, cash used in financing activities in Predecessor YE 2014 included the proceeds of the Magnequench Term Loan of \$60.0 million (excluding debt issuance cost of \$3.3 million).

Contractual Obligations

In the normal course of business, Neo is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable.

(\$000s)	Payments Due by Period				
	1 year	2 – 3 years	4 – 5 years	Thereafter	Total
Operating lease obligations ⁽¹⁾	1,697	1,770	1,106	234	4,807
Accounts payable and other accrued charges	45,691	—	—	—	45,691
Derivative liability ⁽²⁾	—	—	—	9,746	9,746
Provisions ⁽³⁾	—	4,350	—	—	4,350
Other liabilities	647	600	—	—	1,247
Total	48,035	6,720	1,106	9,980	65,841

Notes:

- (1) Represents all operating lease payments for office space, land and office equipment.
- (2) Represents the fair value of the put option on shares of the remaining shareholder of Buss & Buss.
- (3) Represents management's best estimate of the costs to be incurred by Neo Cayman for the disposal of the hazardous NORM currently being stored at the Silmet facility.

Neo believes that its non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months will be funded by cash flow from operating activities and by existing cash. Neo maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

Off-Balance Sheet Arrangements

As of the six month Successor period ended June 30, 2017, Neo's only off-balance sheet arrangements are the operating leases and purchase obligations included in the contractual obligations table above.

Critical Accounting Estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on Neo's expectation of future profitability by legal entity adjusted for significant non-taxable income and expenses as well as limits to the use of loss carryforwards or other tax credits. If a positive forecast of taxable income indicates the

probable future use of a deferred tax asset, it is usually recognized in full. Recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

Impairment

An impairment loss is recognized for the amount by which an asset's or cash generating unit's ("CGU") carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in use, management estimates expected future cash flows from each asset or CGU and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to Neo's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Business combinations

On initial recognition, the identifiable assets and liabilities of the acquired business are included in the consolidated statements of financial position at their fair values. In measuring fair value management uses estimates about future cash flows and discount rates. Any measurement changes from initial recognition would affect the measurement of goodwill.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2016, management assessed that the useful lives represented the expected utility of the assets to Neo.

Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the time the estimates are made. Neo's core business is subject to changes in foreign policies and internationally accepted metal prices which may cause selling prices to change rapidly.

Provisions

A provision is recognized if, as a result of a past event, Neo has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Timing or amount of the outflow may still be uncertain. Management estimates the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

Defined benefit pension liability

Management estimates the defined benefit pension liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of the defined benefit pension liability is based on estimated retirement ages, medical cost trends and mortality. It also takes into account Neo's specific anticipation of future salary increases. Discount factors are determined based on matching the plan's projected cash flow with the independent actuaries' discount yield curve. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future estimates of Neo's defined benefit pension obligations.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes to the financial statements regarding financial assets and liabilities. In applying the valuation techniques management makes use of market inputs, and uses

estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Stock-based compensation

Neo measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield, forfeiture rate and expectations regarding achievement of market conditions and related timing of such achievement. Such assumptions are inherently uncertain and changes in these assumptions affect the fair value estimates.

Related Party Transactions and Balances

Neo's related parties are its joint ventures, associates, directors and executive officers.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with associates

Neo holds a 33% investment in Toda Magnequench Magnetic Materials Co. Ltd. ("**TMT**"), which produces rare earth magnetic compounds with Magnequench Powders supplied by Magnequench's Tianjin facility in its normal course of business. Magnequench's Tianjin facility will then purchase these compounds back from TMT.

Neo holds a 25% ownership interest in Ganzhou Keli Rare Earth New Material Co., Ltd. ("**Keli**"), a company which converts rare earth oxides into metals for use in Magnequench Powders.

Neo also holds a 20% ownership interest in GQD Special Materials (Thailand) Co., Ltd. ("**GQD**"), a company which converts rare earth oxides into metals for use in Magnequench Powders.

For the three and six month Successor periods ended June 30, 2017, Neo purchased \$0.6 million and \$0.9 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$12.8 million and \$26.3 million, and received services from GQD amounting to \$0.2 million and \$0.4 million, respectively.

For the three and six month Successor periods ended June 30, 2017, Neo sold Magnequench Powders and performed services, respectively, amounting to \$0.7 million and \$1.3 million to TMT.

Predecessor transactions with related parties

For the three and six month Predecessor periods ended June 30, 2016, the Predecessor purchased nil and \$2.2 million of rare earth products from Molycorp Minerals, LLC ("**MMLLC**") and the Predecessor sold \$0.1 million and \$0.1 million rare earth raw materials to MMLLC in the same period. There were no related party transactions with MMLLC in the three and six month Successor periods ended June 30, 2017.

Molycorp invested in the capital stock of its subsidiaries by taking part in their formation and acquiring shares in the companies as an investment through its wholly owned subsidiaries MCP Exchangeco Inc. ("**Exchangeco**") and Molycorp Luxembourg Holdings S.a.r.l that directly invested in the shares of NEM. Molycorp and Exchangeco had loans with NEM. Other transactions between NEM and the stockholders are corporate overhead charge-outs, as well as interest income and expense on related party loans. These related party loans were extinguished by way of capital contribution as part of the Reorganization on August 30, 2016 and do not exist for the period post-Reorganization being from August 31, 2016 to date.

Transactions between Neo and its related parties are summarized in the table below:

(\$000s)	Three month period ended June 30, 2017	Six month period ended June 30, 2017	April 5 to June 30, 2016	Three month period ended June 30, 2016	Six month period ended June 30, 2016
	Successor			Predecessor	
Sale of goods and services to related parties	683	1,253	—	678	1,207
Purchase of goods and services from related parties	13,643	27,643	—	11,979	24,352
Corporate overhead charge-out	—	—	—	464	968
Interest income	—	—	—	1,741	3,445
Interest expense	—	—	—	1,351	2,590
				June 30, 2017	December 31, 2016
Trade balances:					
from associates			367		179
due to associates			(9,029)		(10,059)
Total			(8,662)		(9,880)

Directors and Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Neo, directly or indirectly. Key management personnel include Neo's executive officers, vice-presidents and members of its board of directors.

The following compensation was awarded to key management personnel:

Short-term Employee Benefits

(\$000s)	Three month period ended June 30, 2017	Six month period ended June 30, 2017	April 5 to June 30, 2016	Three month period ended June 30, 2016	Six month period ended June 30, 2016
	Successor			Predecessor	
Directors	55	110	—	129	258
Key Executive Members	632	1,566	—	933	1,966
Total	687	1,676	—	1,062	2,224

The lower short-term employee benefits for the three and six month Successor periods ended June 30, 2017 as compared to the same corresponding three and six month Predecessor periods ended June 30, 2016 was attributed to lower headcount in 2017 from restructuring related to the Reorganization as well as no payment was made pursuant to the Legacy Plan to management in the first half of 2017.

Post-employment Benefits

(\$000s)	Three month period ended June 30, 2017	Six month period ended June 30, 2017	April 5 to June 30, 2016	Three month period ended June 30, 2016	Six month period ended June 30, 2016
	Successor			Predecessor	
Directors	—	—	—	—	—
Key Executive Members	1	7	—	2	4
Total	1	7	—	2	4

Stock-based Compensation Expense

(\$000s)	Three month period ended June 30, 2017	Six month period ended June 30, 2017	April 5 to June 30, 2016	Three month period ended June 30, 2016	Six month period ended June 30, 2016
	Successor			Predecessor	
Directors	178	592	—	—	—
Key Executive Members	1,265	3,791	—	—	—
Total	1,443	4,383	—	—	—

Financial Instruments and Risk Management

The following table presents financial assets and liabilities measured at fair value in the consolidated statements of financial position in accordance with the fair value hierarchy. It does not include financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the consolidated statements of financial position as at June 30, 2017 are grouped into the fair value hierarchy as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial Assets:			
Cash and cash equivalents	77,970	—	—
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	—	—	9,746

Neo is exposed to a number of risks in the normal course of business that have the potential to affect its performance. These risk factors include commodity price risk, foreign currency risk, credit risk and liquidity risk.

Commodity price risk

A portion of Neo's current business is conducted in the spot market; therefore, prices can vary with the transaction and individual bids received. Neo's products are primarily marketed to manufacturers as component materials. Prices will vary based on the demand for the end products being produced with the raw materials Neo processes.

Neo's sales and profitability are determined principally by the pricing of the rare earth and rare metals products it produces, and, to a lesser extent, by the price of natural gas and other supplies used in its production process. The prices of the rare earth products are influenced by the price and demand of the end products that Neo's products support, including automotive, electronics and clean energy technologies. A significant decrease in the global demand for these products may have a material adverse effect on Neo's business. Neo does not have hedging contracts for revenue and costs in place.

Neo's costs and capital investments are subject to market movements in other commodities such as natural gas and chemicals. Neo may enter into derivative contracts for a portion of the expected usage of these products, but it does not currently have any derivative contracts on these commodities and it does not currently anticipate entering into derivative agreements on commodities.

Foreign currency risk

Neo is exposed to fluctuations of the U.S. dollar against the functional currencies of its foreign subsidiaries, including the Euro, the Canadian dollar, the Renminbi, the Thai baht and the Japanese Yen, when Neo translates its foreign subsidiaries' financial statements into U.S. dollars for inclusion in its consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss) and a separate component of equity. Any increase (decrease) in the value of the U.S. dollar against those foreign currencies results in unrealized foreign currency translation losses (gains) with respect to assets acquired in, liabilities assumed from, intercompany balances with and results of operations from the foreign subsidiaries. Therefore, Neo may experience a negative impact on its comprehensive income (loss) and stockholders' equity with respect to its holdings in those subsidiaries as a result of foreign currency translation. Neo generally does not hedge against the risk that it may incur non-cash losses upon the translation of the financial statements of its foreign subsidiaries into U.S. dollars.

Credit risk

Neo is exposed to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result, create financial loss. Neo has a large diversified customer base, and is not dependent on any single customer or group of customers. As well, the credit worthiness and financial well-being of its customers are monitored on an ongoing basis.

Neo establishes an allowance for doubtful accounts as determined by management based on their assessment of collection. Therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. No receivables were written off during the six months ended June 30, 2017.

Counterparties to financial instruments may expose us to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at June 30, 2017, Neo does not anticipate non-performance that would materially impact its financial statements.

Liquidity risk

Neo is exposed to the possibility that it may not be able to meet its financial obligations as they fall due. Neo manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account its sales and receipts and matching the maturity profile of financial assets and liabilities. Neo continues to maintain sufficient cash and certain credit facilities which can be drawn upon to meet its operating and capital expenditure obligations as needed. The Board reviews and approves the annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisition and other major investments.

As at June 30, 2017, Neo was able to meet its financial obligations as they fall due.

Recent Accounting Pronouncements

The following accounting pronouncements issued by the IASB were not effective for Neo as of June 30, 2017 and therefore have not been applied in preparing these consolidated financial statements. Neo intends to adopt these standards, if applicable, when they become effective.

IFRS 15 – Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 (“**IFRS 15**”). IFRS 15 will replace IAS 18, Revenue, IAS 11, Construction Contracts and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall in the scope of other IFRSs. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities. IFRS 15 is to be applied on

either a full or modified retrospective approach and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Neo has commenced its assessment to determine which segments and revenue streams will be impacted. In addition, transition options and choice of practical expedients will also be assessed and determined. Neo expects to complete the assessment and implementation in the fourth quarter of 2017.

Neo expects to disclose additional detailed information, including its transition method, any practical expedients elected and estimated quantitative financial effects prior to the adoption of IFRS 15 in the fourth quarter of 2017.

IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9 (2014) (“**IFRS 9**”). IFRS 9 provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. Neo is currently assessing the potential impact of this standard; however, based on initial assessment, Neo does not expect the adoption of this standard to have a material impact on the classification and measurement of its financial assets and liabilities in its consolidated financial statements. With respect to impairment of financial assets, Neo has commenced the assessment of its impact and expects to complete the assessment and the implementation in the fourth quarter of 2017.

IFRS 16 – Leases

On January 13, 2016 the IASB issued IFRS 16 – Leases (“**IFRS 16**”). IFRS 16 supersedes IAS 17 – Leases, IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC-15 – Operating Leases – Incentives and SIC-27 –Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. IFRS 16 has an effective date of January 1, 2019, with early application permitted only if IFRS 15 has also been adopted. Management is currently assessing the impact of this standard on its consolidated financial statements and expects to complete the assessment in the first half of 2018.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

On December 8, 2016, the IASB issued IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration (“**IFRIC 22**”). IFRIC 22 is applicable for annual periods beginning on or after January 1, 2018, and permits early adoption. IFRIC 22 clarifies which date should be used for translation when foreign currency transactions involve an advance payment or receipt. IFRIC 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. Neo intends to adopt this standard in its consolidated financial statements for the annual period beginning on January 1, 2018. Neo has commenced to assess its impact and expects to complete the assessment in the fourth quarter of 2017.

DESCRIPTION OF SHARE CAPITAL

The following is a description of the material terms of the Common Shares and the Preferred Shares. The following description may not be complete and is subject to, and qualified entirely by reference to, the terms and provisions of the Company's articles of incorporation.

Common Shares

The Company's authorized capital consists of an unlimited number of Common Shares without par value. The holders of the Common Shares are entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Company and each Common Share confers the right to one vote in person or by proxy at all meetings of the shareholders of the Company. The holders of the Common Shares, subject to the prior rights, if any, of any other class of shares of the Company, are entitled to receive such dividends in any financial year as the Board may by resolution determine. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of the Common Shares are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares of the Company, the remaining property and assets of the Company. As at the date of this Prospectus, there is one Common Share issued and outstanding. Immediately following the completion of the Arrangement, it is expected that there will be 39,878,384 Common Shares issued and outstanding.

Preferred Shares

The Board has the authority, without action by the Company's shareholders, to designate and issue an unlimited number of Preferred Shares in one or more series and to designate the rights, preferences and privileges of each series. The Preferred Shares of each series will rank on par with the Preferred Shares of every other series and, if so designated by the Board, will be entitled to preference over the Common Shares with respect to payment of dividends and distribution of any assets in the event of the Company's liquidation, dissolution or winding-up. Where the Company does not pay cumulative dividends in full with respect to a series of its Preferred Shares, the shares of all series of the Preferred Shares will participate rateably with respect to the accumulated dividends in accordance with the amounts that would be payable on those shares if all the accumulated dividends were paid in full.

The issuance of Preferred Shares and the terms selected by the Board could decrease the amount of earnings and assets available for distribution to holders of the Common Shares and/or adversely affect the rights and powers, including the voting rights, of the holders of the Common Shares without any further vote or action by the shareholders. Any series of Preferred Shares issued by the Board will have priority over the Common Shares in terms of dividend or liquidation rights or both. The issuance of Preferred Shares, or the issuance of rights to purchase Preferred Shares, could make it more difficult for a third party to acquire a majority of the Company's outstanding voting shares and thereby have the effect of delaying, deferring or preventing a change of control of the Company or an unsolicited acquisition proposal, and could make the removal of management more difficult. Additionally, the issuance of Preferred Shares may have the effect of decreasing the market price of the Common Shares.

The Company has no current intention to issue any Preferred Shares.

CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at the financial period ended June 30, 2017 and its pro forma capitalization on June 30, 2017 after giving effect to the Arrangement and after giving effect to the Arrangement and the Offering. This table should be read in conjunction with the financial statements and the notes thereto included in this Prospectus.

<i>(\$000s)</i>	<u>As at June 30, 2017⁽¹⁾</u>	<u>Pro Forma as at June 30, 2017 after giving effect to the Arrangement</u>	<u>Pro Forma as at June 30, 2017 after giving effect to the Arrangement and the Offering⁽²⁾</u>
Cash	Nil	\$77.9 ⁽³⁾	\$77.9 ⁽³⁾
Total Debt	Nil	Nil	Nil
Equity			
Common Shares	Nil	●	●
Preferred Shares	N/A	Nil	Nil
Total Capitalization	Nil	●	●

Notes:

- (1) The Company was incorporated on September 12, 2017, on which date it issued one Common Share for U.S.\$1.00.
- (2) This amount does not include expenses related to the Offering.
- (3) Neo Cayman has declared a pre-Offering dividend of approximately US\$25.0 million. Following the payment of such dividend, Neo's September 30, 2017 pro forma cash balance would have been approximately \$88.1 million.

OPTIONS TO PURCHASE SECURITIES

Stock Option Plan

The Company believes that equity-based long-term incentive compensation is a fundamental component of its executive compensation program. Following the completion of the Offering, the Company will grant options to purchase Common Shares under the Stock Options Plan for the purpose of retaining key employees and attracting critical talent by providing them with an opportunity to participate in the Company's growth, motivating key personnel, rewarding key personnel for strong financial performance and aligning management's incentives with the interests of the Company's shareholders. The Stock Option Plan was approved by the Board, to be effective as of the Closing Date, as the stock-based incentive plan of the Company following the Closing Date. Following the completion of the Offering, the Company will only grant options under the Stock Option Plan.

Options will be granted by the Board on the recommendation of the Compensation Committee, which are expected to be based on the following factors: the individual's position, responsibility and performance; previous grants; the value of the options in relation to other elements of the individual's total compensation; and the competitiveness of the total compensation paid by the Company relative to that paid by companies with businesses comparable to the Company. In the case of grants to executive officers other than the Chief Executive Officer, the Compensation Committee will consider the recommendations of the Chief Executive Officer, which are based on these same factors.

Options to Purchase Securities

The following table sets out information regarding the outstanding options under the existing Neo Cayman management incentive plan (the "**Legacy Plan**") as of the date of this Prospectus, which, following the completion of the Arrangement, will be exercised to purchase Common Shares rather than ordinary shares of Neo Cayman.

<u>Category of Optionee</u>	<u>Number of Common Shares Options⁽¹⁾</u>	<u>Exercise Price⁽¹⁾</u>	<u>Market Value on date of this Prospectus (C\$)⁽⁴⁾</u>	<u>Expiry Date Range</u>
Directors of the Company (excluding Officers) ⁽²⁾	86,672	9.37	●	Sept 1, 2026
Officers of the Company ⁽³⁾	978,700	9.37	●	Sept 1, 2026
Employees and Consultants of the Company	33,336	9.37	●	Sept 1, 2026
TOTAL	1,098,708			

Notes:

- (1) These numbers reflect the number of Common Shares issuable assuming completion of the Arrangement. The exercise price set out in this chart assumes the completion of the Arrangement.
- (2) This group includes Constantine Karayannopoulos and Eric Noyrez.
- (3) This group includes Geoff Bedford, Rahim Suleman, Kevin Morris, Greg Kroll, Jeff Hogan, Frank Timmerman, Anne Ang, Dilip Sinha and Alex Caldwell.
- (4) This value indicates the exercise price of the options and the Offering Price which has been converted from U.S. dollars to Canadian dollars for the table above at the Bank of Canada closing exchange rate on September 30, 2017 of \$1.00=C\$1.248.

PRIOR SALES

The following table summarizes details of the Common Shares or securities convertible or exercisable into Common Shares issued by the Company during the 12-month period prior to the date of this Prospectus:

Date of Issuance	Security	Issue / Exercise Price per Security	Number of Securities
September 12, 2017	Common Shares ⁽¹⁾	1.00	1
On completion of the Arrangement	Common Shares ⁽²⁾	●	39,878,383

Notes:

- (1) Issued on incorporation.
- (2) To be issued in connection with the Arrangement.

PRINCIPAL SHAREHOLDERS AND SELLING SHAREHOLDER

The following table shows the names of the persons or companies who, as at the Closing Date, will own of record, or who, to its knowledge, will own beneficially, directly or indirectly, more than 10% of the outstanding Common Shares, who is also the Selling Shareholder.

Shareholder Name	Number of Common Shares Owned Immediately following the Arrangement and Prior to the Offering⁽¹⁾⁽²⁾	Number of Common Shares to be sold pursuant to the Offering	Number of Common Shares Owned after giving effect to the Arrangement and the Offering⁽¹⁾⁽²⁾	Assuming Completion of the Offering⁽²⁾		Assuming Completion of the Offering and that the Over-Allotment Option is exercised in full⁽²⁾	
				% of Class on undiluted basis	% of Class on fully diluted basis	% of Class on undiluted basis	% of Class on fully diluted basis
OCM Neo Holdings (Cayman), L.P. ⁽³⁾	37,996,100	●	●	● %	● %	● %	● %

Notes:

- (1) To the knowledge of the Company, none of these Common Shares are subject to any voting trust or similar agreement other than the lock-up arrangements set out in “*Plan of Distribution*”.
- (2) To the knowledge of the Company, owned beneficially and of record.
- (3) The Selling Shareholder is jointly owned by the Opportunities and Strategic Credit Funds managed by Oaktree Capital Management, L.P.

DIRECTORS AND EXECUTIVE OFFICERS

The articles of incorporation of the Company provide that the number of directors should not be fewer than three and no more than 15. Each director holds office until the close of the next annual general meeting of the Company, or until his or her successor is duly elected or appointed, unless his or her office is earlier vacated. The Board currently consists of nine directors.

Name, Occupation and Security Holding

The following table provides the names of the directors and officers, their principal residence, respective positions and offices held with the Company assuming completion of the Arrangement, their principal occupations for the past five years and the date they were appointed as an officer and/or or a director of the Company, Neo Cayman or a subsidiary of Neo Cayman, as applicable:

Name, Principal Residence and Position Held	Principal Occupation for the Past Five Years	Director or Officer Since
<p>Constantine E. Karayannopoulos Toronto, Ontario, Canada <i>Chairman</i></p>	<p>Mr. Karayannopoulos has been Chairman and Director of Neo C&O LLC (“Neo C&O”) since August 31, 2016. He is also the Chairman of the board of directors of Neo Lithium Corp. since February 9, 2016. Previously, he was Chairman and Director of Molycorp since December 2013 which followed his earlier role of Director, President and Chief Executive Officer of Molycorp from December 2012 to December 2013. He was Vice-Chairman and Director of Molycorp from June 2012 to December 2012. Mr. Karayannopoulos served as Director, President and Chief Executive Officer of NEM until Molycorp acquired NEM in June 2012.</p>	<p>Company: October 2017 NEM: May 1995</p>
<p>Eric Noyrez⁽¹⁾ Bidart, France <i>Lead Director</i></p>	<p>Mr. Noyrez has been an independent director of Neo C&O since August 31, 2016. The board of directors of Neo C&O acts as an advisory board to Neo Cayman. Since 2014, he shares his business activities as a board member and advisor. He previously served as the Chief Executive Officer and Executive Director of Lynas Corporation, an integrated rare earth mining and separation company, from March 2013 to June 2014, President from March 2011 to March 2013 and Chief Operating Officer from February 2010 to March 2013.</p>	<p>Company: October 2017 Neo Cayman: August 2016</p>
<p>Geoff R. Bedford Burlington, Ontario, Canada <i>President, Chief Executive Officer & Director</i></p>	<p>Mr. Bedford was appointed the President and Chief Executive Officer of Neo Cayman on August 31, 2016. Previously, he served as President and Chief Executive Officer of Molycorp since December 2013, which followed his earlier roles of Executive Vice President and Chief Operating Officer and Executive Vice President of Molycorp’s Rare Earths and Magnetics segment from June 2012. Mr. Bedford served as Executive Vice President and Chief Operating Officer of NEM until Molycorp acquired NEM in June 2012. Prior to that, he served as Executive Vice President of the Performance Materials Division of NEM from 2005 to 2011, and as Executive Vice President, Finance, and Chief Financial Officer, from 1999 to 2005.</p>	<p>Company: September 2017 NEM: July 1999</p>
<p>Nicholas Basso Venice, California, U.S. <i>Director</i></p>	<p>Mr. Basso has been a director of Neo C&O since August 31, 2016. Mr. Basso is Senior Vice President in the Strategic Credit group of Oaktree Capital Management, L.P. (“Oaktree Capital Management”), an affiliate of the Selling Shareholder. Previously, he spent two years as an investment professional in the Opportunities Funds group of Oaktree Capital Management where he worked closely with senior professionals across various industries. Prior to which, Mr. Basso spent two years as an analyst in the Mergers & Acquisitions group at Citigroup in New York, where he was responsible for advising clients on acquisitions, divestitures, strategic alternatives and leveraged buyouts. Mr. Basso received a B.S. degree summa cum laude in Business Administration from the Tepper School of Business at Carnegie Mellon University.</p>	<p>Company: October 2017 Neo Cayman: August 2016</p>

Name, Principal Residence and Position Held	Principal Occupation for the Past Five Years	Director or Officer Since
Brook Hinchman ⁽¹⁾ Santa Monica, California, U.S. <i>Director</i>	Mr. Hinchman has been a director of Neo C&O since August 31, 2016. Mr. Hinchman is an investment professional in the Opportunities Funds group of Oaktree Capital Management, where he is Senior Vice President. Prior to joining Oaktree Capital Management in 2010, Mr. Hinchman spent four years at Goldman, Sachs & Co., most recently in the Merchant Banking division. Mr. Hinchman received a B.B.A. degree in finance from the Tippie College of Business at the University of Iowa, where he was valedictorian.	Company: October 2017 Neo Cayman: August 2016
Claire M.C. Kennedy ⁽¹⁾⁽²⁾ Toronto, Ontario, Canada <i>Director</i>	Ms. Kennedy joined the Board in October 2017 and has been appointed to the Audit Committee. Ms. Kennedy was a member of the board of directors of NEM from February 2010 to June 2012 and sat on the Audit Committee. Ms. Kennedy has been a Partner in the Toronto office of Bennett Jones LLP since 2009, where she provides corporate tax and transfer pricing advice to clients. Ms. Kennedy is a director of the Bank of Canada, the nation's central bank, and she serves on the Audit & Finance and Human Resources committees, and is Chair of the Corporate Governance Committee. She is also a director of Alamos Gold Inc., which is listed on the TSX and NYSE. Claire received her ICD.D designation from the Institute of Corporate Directors and she has completed the Making Corporate Boards More Effective program at Harvard Business School. Ms. Kennedy is currently enrolled in the Advanced Management Program at the University of Chicago's Booth School of Business. She is a Professional Engineer and holds a Bachelor of Laws degree from Queen's University and a Bachelor of Applied Science degree in Chemical Engineering from the University of Toronto. Claire is also Chair of the Governing Council of the University of Toronto and is a member of the Dean's Advisory Board at Rotman.	Company: October 2017 NEM: February 2010
Aman Kumar London, U.K. <i>Director</i>	Mr. Kumar is an investment professional in the Strategic Credit group of Oaktree Capital Management, where he is Vice President. Prior to joining Oaktree Capital Management in 2014, Mr. Kumar spent three years at Deutsche Bank in London working with the global credit team, most recently as a Vice President on the European high yield trading desk. He received an M.B.A. from the Wharton School at the University of Pennsylvania and holds a Bachelor of Medicine, Bachelor of Surgery degree from King's College London.	Company: October 2017
Edgar Lee Santa Monica, California, U.S. <i>Director</i>	Mr. Lee has been a director of Neo C&O since August 31, 2016. Mr. Lee serves as the Portfolio Manager for the Strategic Credit group of Oaktree Capital Management. He was also an investment professional within the Opportunities Funds group of Oaktree Capital Management and has led a number of the group's investments in the media, technology and telecom industries. Prior to joining Oaktree Capital Management in 2007, Mr. Lee worked within the Investment Banking division at UBS Investment Bank in Los Angeles, where he was responsible for advising clients on a number of debt and preferred stock restructurings, leveraged financings, buy-side and sell-side M&A, mezzanine financings and recapitalizations. Before that, he was employed within the Fixed Income division at Lehman Brothers Inc. Prior experience	Company: October 2017 Neo Cayman: August 2016

Name, Principal Residence and Position Held	Principal Occupation for the Past Five Years	Director or Officer Since
<p>Emily Stephens San Marino, California, U.S. <i>Director</i></p>	<p>also includes work at Katzenbach Partners LLP and the Urban Institute. Mr. Lee received a B.A. degree in Economics from Swarthmore College and an M.P.P. with a concentration in Applied Economics from Harvard University. Previously, Mr. Lee served on the boards of Nine Entertainment Company Holdings Ltd. and Charter Communications Inc.</p> <p>Ms. Stephens has been a director of Neo C&O since August 31, 2016. Ms. Stephens is Managing Director in the Opportunities Funds group of Oaktree Capital Management. She is involved with analyzing credit agreements and indentures and advising on legal issues related to restructurings/bankruptcies and platform/joint venture investments. Prior to joining Oaktree Capital Management in 2006, Ms. Stephens served as a Vice President and Associate General Counsel at Trust Company of the West. Prior to that, Ms. Stephens spent five years as a Corporate Associate at Munger, Tolles & Olson LLP. Ms. Stephens graduated with a B.A. degree in Government cum laude from Dartmouth College. She then went on to receive a J.D. from the University of Texas School of Law, where she was a member of the Texas Law Review and Order of the Coif. Ms. Stephens is a member of the state bars of California and Texas.</p>	<p>Company: October 2017 Neo Cayman: August 2016</p>
<p>Rahim Suleman Toronto, Ontario, Canada <i>Chief Financial Officer</i></p>	<p>Mr. Suleman has been the Executive Vice President and Chief Financial Officer of Neo Cayman since January 2017, when he replaced the retiring Chief Financial Officer of Neo Cayman. Previously, Mr. Suleman was Chief Financial Officer at Stackpole International since 2010. From 2009 to 2010, he was Global Finance Manager with GE Digital Energy Protection and Control.</p>	<p>Company: September 2017 Company: January 2017</p>
<p>Kevin D. Morris Castle Pines, Colorado, U.S. <i>Chief Operating Officer</i></p>	<p>Mr. Morris has been the Executive Vice President and Chief Operating Officer of Neo Cayman since August 31, 2016. Previously, he served as Executive Vice President and Chief Operating Officer of Molycorp since May 2016 which followed his earlier roles of Executive Vice President of Rare Metals and Administration from February 2015 and Senior Vice President of Rare Metals and Administration from June 2012. He joined Molycorp as Senior Vice President Administration in November 2011.</p>	<p>Company: September 2017 Molycorp: November 2011</p>
<p>Jeffrey (Jeff) R. Hogan Burton, Ohio, U.S. <i>Executive Vice President, C&O</i></p>	<p>Mr. Hogan has been Executive Vice President, C&O since August 31, 2016. Previously, he served as Executive Vice President, Resources of Molycorp since April 2013 which followed his earlier role as Vice President & General Manager, C&O of Molycorp since June 2012. Mr. Hogan served as Senior Vice President and General Manager of the Performance Materials division of NEM until Molycorp acquired Neo in June 2012. He joined NEM in June 1999.</p>	<p>NEM: January 2006</p>
<p>Greg Kroll Singapore <i>Senior Vice President, Magnequench</i></p>	<p>Mr. Kroll has been Senior Vice President Sales and Marketing, Magnequench since January 2015. Previously, he served as Director Sales and Marketing, Magnequench since April 2010. Mr. Kroll joined Magnequench in 2000 and has served in various marketing and business development capacities with Magnequench in Singapore since 2002.</p>	<p>Magnequench: April 2010</p>
<p>Shannon Y. Song Beijing, China <i>Executive Vice President, Magnequench</i></p>	<p>Ms. Song has been the Executive Vice President, Magnequench since August 31, 2016. Previously, she served as Executive Vice President, Magnequench of Molycorp since June 2012. Ms. Song served as Executive Vice President, Magnequench of NEM since September 2005 until Molycorp acquired NEM in June 2012.</p>	<p>Magnequench: September 1998</p>

Name, Principal Residence and Position Held	Principal Occupation for the Past Five Years	Director or Officer Since
Frank Timmerman Veldhoven, The Netherlands <i>Senior Vice President, Rare Metals</i>	Mr. Timmerman has been Senior Vice President, Rare Metals since August 31, 2016. Previously, he served as Vice President, Rare Metals of Molycorp since June 2012. Mr. Timmerman served as General Manager, Rare Metals of NEM until Molycorp acquired NEM in June 2012.	NEM: June 2012

Notes:

- (1) Member of the Audit Committee.
- (2) Chair of the Audit Committee.

The following table provides the names of the directors and officers of the Company and the number and percentage of Common Shares owned, directly or indirectly, or over which control or direction is exercised, of voting securities of the Company, as of the date hereof:

Name	Common Shares Beneficially Owned or Controlled ⁽¹⁾⁽³⁾	% of Issued and Outstanding Common Shares after giving effect to the Arrangement and the Offering ⁽²⁾
Constantine Karayannopoulos	892	0.002%
Eric Noyrez	556	0.001%
Geoff Bedford	15,044	0.038%
Nicholas Basso	Nil	Nil
Brook Hinchman	Nil	Nil
Claire Kennedy	Nil	Nil
Aman Kumar	Nil	Nil
Edgar Lee	Nil	Nil
Emily Stephens	Nil	Nil
Rahim Suleman	13,892	0.035%
Kevin Morris	13,892	0.035%
Jeff Hogan	10,004	0.025%
Greg Kroll	5,001	0.013%
Shannon Song	Nil	Nil
Frank Timmerman	5,556	0.014%

Notes:

- (1) Indicates the number of Common Shares that each person is entitled to be issued pursuant to the vesting of RSUs effective September 1, 2017 pursuant to the Legacy Plan and assumes the completion of the Arrangement. Common Shares are expected to be issued shortly after the Closing Date.
- (2) Assuming that no Offered Shares were purchased by such persons pursuant to the Offering. This percentage takes into account the issuance of the Common Shares indicated in the first column and assumes that the Offering does not constitute a Liquidity Event under the Legacy Plan. See “Options to Purchase Securities”.
- (3) In addition, certain officers and directors are entitled to Dividend Equivalents. See “Executive Compensation – Other Compensation – The Legacy Plan”.

None of the directors or officers of the Company are expected to subscribe for any Offered Shares issued pursuant to the Offering. As of the date of this Prospectus, the directors and executive officers of the Company beneficially own, directly or indirectly, as a group, no Common Shares. After the Common Shares indicated in the table above are issued, the directors and executive officers of the Company will beneficially own, directly or indirectly, as a group, 59,836 Common Shares, representing approximately 0.15% of all outstanding voting securities of the Company.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Cease Trade Orders

Other than as set out below, no director or executive officer of the Company is, as at the date of this Prospectus, or was within the 10 years before the date of this Prospectus, a director, chief executive officer or chief financial officer of any company (including the Company), that:

- (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer, or

- (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

For the purposes of the preceding disclosure, an “order” means: (i) a cease trade order; (ii) an order similar to a cease trade order; or (iii) an order that denied the relevant company access to any exemption under securities legislation, that was in effect for more than 30 days.

Each of Geoff Bedford, Kevin Morris, Shannon Song, Jeff Hogan and Constantine Karayannopoulos were officers or directors of Molycorp, the predecessor company to the Company when Molycorp’s common shares were cease traded and delisted from the New York Stock Exchange in connection with the Reorganization. See “*Corporate Structure – Corporate History*”.

Bankruptcies

Other than as set out below, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, at the date of this Prospectus, or has been within the 10 years before the date of this Prospectus, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise within creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or
- (b) has, within the 10 years before the date of this Prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold assets of the director, executive officer or shareholder.

Each of Geoff Bedford, Kevin Morris, Shannon Song, Jeff Hogan and Constantine Karayannopoulos were directors or officers of Molycorp, the predecessor company to the Company, when Molycorp underwent the Reorganization. See “*Corporate Structure – Corporate History*”.

Each of Brook Hinchman, Emily Stephens, Nicholas Basso, Edgar Lee and Aman Kumar are officers of Oaktree Capital Management. A principal focus of Oaktree Capital Management’s investing activities is in the debt of financially stressed or distressed companies and to take an active role in the bankruptcy process, often emerging with equity of the reorganized company. While Oaktree Capital Management does not typically become a control person of the issuer or join the board of directors of the issuer until after it has emerged from bankruptcy, Oaktree Capital Management may sign a restructuring support agreement or make arrangements with other creditors during the bankruptcy process with respect to the debt it holds.

Penalties and Sanctions

Other than as set out below, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to:

- (a) any penalty or sanction imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalty or sanction imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

Each of Brook Hinchman, Emily Stephens, Nicholas Basso, Edgar Lee and Aman Kumar are officers of Oaktree Capital Management. A principal focus of Oaktree Capital Management’s investing activities is in the debt of financially stressed or distressed companies and to take an active role in the bankruptcy process, often emerging with equity of the reorganized company. As such, Oaktree and its officers are often subject to litigation that arises in the ordinary course of its business of investing in distressed debt and special situation funds.

Conflicts of Interest

Certain of the directors and officers of the Company are also directors and officers of other companies. The directors of the Company are bound by the provisions of applicable corporate law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests, which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board, any director in a conflict is required to disclose his or her interest and abstain from voting on such matter.

To the best of the Company's knowledge, and other than disclosed herein, there are no known existing or potential conflicts of interest among the Company, its promoters, directors and officers or other members of management as a result of their outside business interests except that certain of the directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies.

EXECUTIVE COMPENSATION

Introduction

The following discussion describes the significant elements of the Company's executive compensation program, with particular emphasis on the process for determining compensation payable to the Company's Chief Executive Officer and Chief Financial Officer and, other than the Chief Executive Officer and Chief Financial Officer, each of the Company's most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity (collectively, the "Named Executive Officers"). The anticipated Named Executive Officers for the fiscal year ended December 31, 2017 are:

- Geoff Bedford, President and Chief Executive Officer;
- Rahim Suleman, Executive Vice President and Chief Financial Officer;
- Kevin Morris, Executive Vice President and Chief Operating Officer;
- Shannon Song, Executive Vice President, Magnequench; and
- Jeff Hogan, Executive Vice President, Chemicals and Oxides.

Compensation Discussion and Analysis

Overview

The Board, upon recommendation of the Compensation Committee, will make decisions regarding all forms of compensation, including salaries, bonuses and equity incentive compensation for the Company's executive officers. The Compensation Committee will make recommendations to the Board regarding compensation of the President and Chief Executive Officer and will make decisions in conjunction with feedback from the President and Chief Executive Officer regarding the compensation of the Company's other executive officers. The Compensation Committee, in consultation with the President and Chief Executive Officer, will also administer employee incentive compensation, including equity-based compensation plans.

Compensation Committee

The Company contemplates appointing a Compensation Committee comprised of three directors. None of the members of the Compensation Committee will be an officer of the Company and, as such, the Board believes that the Compensation Committee will be able to conduct its activities in an objective manner. See "*Corporate Governance – Compensation Committee*".

For additional details regarding the relevant education and experience of each member of the Compensation Committee, including the direct experience that is relevant to each committee member's responsibilities in executive compensation, see "*Directors and Executive Officers – Biographies*".

The Board has adopted a written mandate setting forth the purpose, composition, authority and responsibility of the Compensation Committee. The primary responsibilities and duties of the Compensation Committee, include, but are not limited to:

- discharging the Board's responsibilities relating to the compensation of the Company's executive officers;
- administering the Company's incentive compensation and equity-based compensation plans; and
- assisting the Board with respect to management succession and development.

The Compensation Committee reviews and makes recommendations to the Board on an annual basis regarding: (i) company-wide compensation programs and practices; (ii) all aspects of the remuneration of the Company's executive officers; and (iii) equity-based plans and any material amendments thereto. The Board expects that the Compensation Committee will review the executive compensation structure as a priority issue following the Closing Date, and as part of this review is expected to engage a compensation consultant to assist with the structuring and review process. Until the Compensation Committee and the compensation consultant have reviewed and recommended a program to the Board, management expects that the compensation structure for Named Executive Officers will remain substantially the same as the 2017 structure but for the adoption of the Stock Option Plan in place of the Legacy Plan.

Compensation Objectives

The objectives of the Company's executive compensation arrangements, the Company's executive compensation philosophy and the application of this philosophy to the Company's executive compensation arrangements as well as those relating to compensation of directors is set out below. When determining the compensation arrangements for the Named Executive Officers, the Compensation Committee expects to consider the objectives of: (i) retaining an executive critical to the success of the Company and the enhancement of shareholder value; (ii) providing fair and competitive compensation; (iii) balancing the interests of management and the Company's shareholders; and (iv) rewarding performance, both on an individual basis and with respect to the business in general.

Elements of 2017 Compensation of Named Executive Officers

For 2017, the Company believes that a substantial portion of the total compensation for the Company's Named Executive Officers should be variable and tied to the Company's performance to align their compensation interests with the achievement of the Company's business objectives and the long-term investment interests of the Company's shareholders. At the same time, the Company strives to attract and retain high caliber executives through the measured use of competitive fixed compensation. The Company's program of both fixed and at risk compensation is offered at levels that the Company believes are competitive within its industry and appropriate for 2017.

The Company believes the compensation program, when evaluated on a component by component basis and in total, effectively achieves the Company's compensation philosophy and objectives described above. The following table summarizes the key components of the Company's compensation program for 2017:

<u>Component</u>	<u>Primary Purpose and Objectives</u>
Base Salary	Base salary compensates an individual in cash for his or her responsibilities, skills, experience and performance. The levels of base salaries are intended to attract and retain a high quality management team, especially when combined with the other components of the Company's compensation program. The levels of base salary for the Named Executive Officers are designed to reflect each executive officer's scope of responsibility, accountability and industry experience.
Annual Incentive Program Awards	The Company's annual incentive program awards are used to align the Named Executive Officers' compensation interests with the overall business objectives and the short term investment interests of the Company's shareholders by rewarding the Named Executive Officers for annual performance. Corporate goals were established and approved by the Board in March 2017 and performance is evaluated after year end. Payments with respect to the 2017 annual incentive program awards will be made in cash in the first quarter of 2018.
Long Term Incentive Program Awards	Equity awards under the Legacy Plan generally align the Company's executives' compensation interests with the long-term investment interests of the Company's shareholders and promote retention. The Legacy Plan authorizes grants of equity-based compensation in the form of share options, restricted share units and performance units. Following the completion of the Offering, the Company will no longer grant equity-based compensation awards under the Legacy Plan and has adopted the Stock Option Plan and intends to grant Company Options pursuant to the Stock Option Plan going forward. See " <i>Stock Option Plan and Stock Options</i> " below.
Health and Welfare Benefits	Broad based and customary health and welfare benefits provide for basic health, life and income security needs of the Named Executive Officers and their dependents. These health and welfare benefits are competitive with industry practices and help attract and retain executives.

Component**Primary Purpose and Objectives**

Retirement Benefits

The Company's Canada Group Retirement Savings Plan for the Company's Canadian based Named Executive Officers and the Company's 401(k) plan for the Named Executive Officers who reside in the United States encourage and reward long-term service by providing market based benefits for retirement. All employees who are Canadian residents are eligible to participate in the Company's Canada Group Retirement Savings Plan and all U.S. based employees are eligible to participate in the Company's 401(k) plan.

2017 Base Salaries

In March 2017, the board of directors of Neo Cayman approved a 2% cost of living increase to the base salary of all Named Executive Officers, except Geoff Bedford and Rahim Suleman, as Mr. Bedford's salary had been adjusted in September 2016. Mr. Suleman joined Neo Cayman in January 2017.

2017 Annual Incentive Program Awards

The annual incentive for a Named Executive Officer is calculated by multiplying base salary by a target incentive percentage ranging from 60 to 84% of base salary. The following multiples of base salary are provided for in the employment agreements for each of the Named Executive Officers:

	Annual Incentive Target Percentage
Geoff Bedford	83.3%
Rahim Suleman	65%
Kevin Morris	65%
Shannon Song	60%
Jeff Hogan	60%

The annual incentive for the President and Chief Executive Officer, Chief Financial Officer and Chief Operating Officer was approved by the board of directors of Neo Cayman and is dependent upon corporate and personal performance, measured against the annual business plan approved by the board of directors of Neo Cayman. The annual incentive pay for other Named Executive Officers is recommended to the Board by the Chief Executive Officer and is dependent upon corporate, business segment and personal performance and measured against the annual business plan.

Metrics and Goals. In March 2017, the board of directors of Neo Cayman approved the 2017 Annual Incentive Plan Goals consisting of the following three metrics for both corporate and business segments: Health, Environment, Safety and Security ("**HESS**"); Adjusted EBITDA vs. Budget; and Return on Capital Employed ("**ROCE**") vs. Budget. Each of these metrics is discussed in more detail below:

HESS – 10%. The components of this metric will be the average of LTIR ("**Lost Time Incident Rate**") and TRIR ("**Total Reportable Incident Rate**");

Adjusted EBITDA vs. Budget – 80%. Adjusted EBITDA is defined in the 2017 budget as operating profit plus non-cash items and other selected items, to be computed in a manner consistent between budget and actuals; and

ROCE vs. Budget – 10%. ROCE to be defined as Adjusted EBITDA divided by capital employed, subject to certain adjustments as agreed upon by the board of directors of Neo Cayman, to be computed in a manner consistent between budget and actual.

The board of directors of Neo Cayman also approved the following weightings for the Named Executive Officers:

	Corporate	Business Segment / Department	Personal Performance	Total
Chief Executive Officer / Chief Financial Officer / Chief Operating Officer	90%	—	10%	100%
Business Segment Executive Vice President	45%	45%	10%	100%

Other Compensation – The Legacy Plan

The Named Executive Officers, other than Ms. Song, are entitled to participate in the Legacy Plan, the purpose of which is to align the interests of participants with those of shareholders of Neo Cayman providing incentive compensation opportunities tied to performance of the securities of Neo Cayman. The Legacy Plan authorized the granting of equity-based compensation in the forms of options to purchase ordinary shares of Neo Cayman (“**Legacy Options**”), restricted share units (“**RSUs**”), and two series of performance units (“**PSUs**” and “**Additional PSUs**”, respectively) . As of the date of this Prospectus, the following equity-based awards are outstanding under the Legacy Plan:

<u>Group</u>	<u>Legacy Options⁽¹⁾</u>	<u>RSU⁽¹⁾</u>	<u>PSU⁽¹⁾</u>	<u>Additional PSU⁽¹⁾</u>
Executive Officers and Employees	1,012,036	269,876	843,588	168,920
Directors	86,672	10,112	72,228	14,448

Note:

(1) The numbers reflected in this table indicate number of Common Shares underlying such awards, after giving effect to the Arrangement. A portion of the RSUs have vested and will be issued as Common Shares immediately after Closing. See “Directors and Executive Officers”.

The Company has agreed to issue Common Shares on exercise of the Legacy Options. The number of Common Shares issuable on exercise of the Legacy Options and the exercise price per share will be adjusted to apply the exchange ratio applied in connection with the Arrangement. One-quarter of the Legacy Options vest on each of the first four anniversaries of the grant date, beginning on September 1, 2017. Upon the occurrence of a Liquidity Event (defined for the purposes of the Legacy Plan to be the consummation of a transaction or series of related transactions that results in the Selling Shareholder and its affiliates ceasing to own at least 51% of the outstanding shares of the Company), the options vest immediately in full, subject to the participant’s continued services to the Company through the completion of the Liquidity Event.

One-quarter of the RSUs vest on each of the first four anniversaries of the grant date, beginning on September 1, 2017. Upon the occurrence of a Liquidity Event, the RSUs vest immediately in full, subject to the participants continued services to the Company through the completion of the Liquidity Event. Assuming the completion of the Arrangement, vested RSUs shall be settled by the delivery of Common Shares.

Upon the occurrence of a Liquidity Event, one-third of the PSUs vest immediately provided that the total consideration received by the Company’s shareholders in connection with such Liquidity Event exceeds an enumerated amount, an additional third will vest provided that the Selling Shareholder realized an internal rate of return of at least 10% upon such Liquidity Event, and the remaining one-third will vest provided that the Selling Shareholder has realized an internal rate of return of at least 15% upon such Liquidity Event, in each case subject to the participant’s continued service to the Company through the completion of the Liquidity Event. Assuming completion of the Offering, vested PSUs shall be settled by the delivery of Common Shares.

Upon the occurrence of a Liquidity Event prior to December 31, 2018, one-half of the Additional PSUs vest and the remaining one-half will vest provided that the total consideration received by the Company’s shareholders in connection with such Liquidity Event exceeds an enumerated amount, in each case subject to the participant’s continued service to the Company through the completion of the Liquidity Event. Assuming completion of the Arrangement, vested Additional PSUs shall be settled by the delivery of Common Shares.

The holders of RSUs, PSUs and Additional PSUs are entitled receive grants in tandem to each such RSU, PSU and Additional PSU, a dividend equivalent (a “**Dividend Equivalent**”) which entitles the holder thereof to accrue payments equal to a cash dividend declared on the Neo Cayman ordinary shares underlying each such RSU, PSU and Additional PSU and subject to the vesting of the corresponding RSU, PSU or Additional PSU, is payable in ordinary shares of Neo Cayman. The Company has agreed to issue the equivalent number of Common Shares following the completion of the Arrangement in the place of Neo Cayman issuing ordinary shares.

In the event of a stock dividend, extraordinary cash or stock dividend or other distribution or payment with respect to the ordinary shares of Neo Cayman, among other events, the Legacy Plan provides that the board of directors of Neo

Cayman shall, in good faith to be equitable to the holders of the RSUs, PSUs, Additional PSUs and Legacy Options (to prevent, among other things, dilution or enlargement of the rights of the holders), make appropriate adjustments to the applicable securities, underlying securities and/or the exercise prices of the respective awards.

All of the convertible securities issued under the Legacy Plan will remain outstanding following the Arrangement. However, the Company has assumed the obligation to issue Common Shares underlying such securities. The number of Common Shares to be issued pursuant to the terms of the Legacy Options, RSUs, PSUs and Additional PSUs will reflect the application of the exchange rate applied on the completion of the Arrangement. See “*Corporate Structure – The Arrangement*”.

Risks Associated with Compensation Policies and Practices

The oversight and administration of the Company’s executive compensation program requires the Compensation Committee to consider risks associated with the Company’s compensation policies and practices. Potential risks associated with compensation policies and compensation awards are considered at annual reviews and also throughout the year whenever it is deemed necessary by the Compensation Committee.

The Company’s executive compensation policies and practices are intended to align management incentives with the long-term interests of the Company and its shareholders. In each case, the Company seeks an appropriate balance of risk and reward. Practices that are designed to avoid inappropriate or excessive risks include: (i) financial controls that provide limits and authorities in areas such as capital and operating expenditures to mitigate risk taking that could affect compensation; (ii) balancing base salary and variable compensation elements; and (iii) spreading compensation across short and long-term programs.

Compensation of Named Executive Officers

The following table sets out information concerning the targeted compensation to be earned by, paid to or awarded to the Named Executive Officers for the fiscal year ending December 31, 2017.

Name and principal position	Salary ⁽¹⁾⁽²⁾	Option-based awards	Share-based awards ⁽³⁾	Non-equity incentive plan compensation		Pension value ⁽⁵⁾	All other compensation ⁽⁶⁾	Total compensation ⁽¹⁾
				Annual incentive plans ⁽⁴⁾	Long-term incentive plans			
Geoff Bedford ⁽⁷⁾ <i>President and Chief Executive Officer</i>	480,769	—	734,026	400,641	—	10,421	8,853	1,634,710
Rahim Suleman <i>Executive Vice President and Chief Financial Officer</i>	368,590	310,807	1,169,514	239,583	—	10,421	7,112	2,106,027
Kevin Morris <i>Executive Vice President and Chief Operating Officer</i>	382,500	—	—	248,625	—	10,800	11,741	653,666
Shannon Song ⁽⁸⁾ <i>Executive Vice President, Magnequench</i>	390,150	—	—	253,598	—	10,800	111,566	766,114
Jeff Hogan <i>Executive Vice President, C&O</i>	338,130	—	—	202,878	—	10,800	28,838	580,646

Notes:

- (1) The Company reports its financial statements in U.S. dollars and the table above is shown in U.S. dollars. Ms. Song, Mr. Morris and Mr. Hogan are paid in U.S. dollars. Compensation for Messrs. Bedford and Suleman is made in Canadian dollars but has been converted for the table above at the Bank of Canada closing exchange rate on September 30, 2017 of \$1.00 = C\$1.248.
- (2) Represents the salary expected to be paid in the fiscal year ending December 31, 2017.

- (3) The fair value of RSUs vested at the vesting date will be estimated using the Black-Scholes option pricing model. The Company has adopted fair value accounting for options granted under the Stock Option Plan using the Black-Scholes fair value option pricing model, as established methodology.
- (4) Represents the annual incentive plan amount if the targets approved for the 2017 fiscal year are met.
- (5) Pension amounts include contributions of the Company to a defined contribution retirement savings or 401(k) plan.
- (6) None of the Named Executive Officers are entitled to perquisites or other personal benefits which, in the aggregate, are worth over C\$50,000 or over 10% of their base salary.
- (7) Mr. Bedford will receive no additional compensation in his capacity as a director of the Company.
- (8) The terms of Ms. Song's employment agreement include a housing allowance and tax equalization payments during her foreign service period. In 2017, the Company expects to make payments of \$66,000, \$31,820 and \$ • for housing allowance, exchange rate reimbursement and tax equalization, respectively.

Incentive Plan Awards – Option-Based and Share-Base Awards Outstanding

Name	Option-based Awards				Share-Based Awards		
	Number of securities underlying unexercised options (#) ⁽¹⁾	Option exercise price (U.S.\$)	Option Expiration Date	Value of unexercised in-the-money options ⁽¹⁾ (C\$)	Number of share-based awards that have not vested	Market or payout value of share-based awards that have not vested (C\$)	Market or payout value of vested share-based awards not paid out or distributed (C\$)
Geoff Bedford	336,004	9.37	Sept 1, 2026	•	441,324	•	•
Rahim Suleman	168,004	9.37	Sept 1, 2026	•	209,672	•	•
Kevin Morris	168,004	9.37	Sept 1, 2026	•	209,672	•	•
Shannon Song	Nil	N/A	N/A	N/A	Nil	N/A	N/A
Jeff Hogan	120,004	9.37	Sept 1, 2026	•	150,008	•	•

Notes:

- (1) The number reflects the number of Common Shares issuable on exercise of Legacy Options, after giving effect to the Arrangement.
- (2) The value of the unexercised in-the-money options is calculated based on the Offering Price and using the Bank of Canada closing exchange rate on September 30, 2017 of \$1.00 = C\$1.248.

Incentive Plan Awards – Expected Value Vested or Earned

The following table indicates, for each of the Named Executive Officers, a summary of the value of option-based awards and share-based awards expected to be vested in accordance with their terms during the fiscal year ending December 31, 2017 (assuming the continued employment of each Named Executive Officer).

Name	Option-based awards – Value expected to be vested during the fiscal year (U.S.\$) ⁽¹⁾⁽²⁾	Share-based awards – Value expected to be vested during the fiscal year ⁽⁴⁾	Non-equity incentive plan compensation – value expected to be vested during the fiscal year ⁽¹⁾⁽³⁾
Geoff Bedford	•	•	400,641
Rahim Suleman	•	•	239,583
Kevin Morris	•	•	248,625
Shannon Song	•	•	253,598
Jeff Hogan	•	•	202,878

Notes:

- (1) The annual incentive component of non-equity incentive plan compensation for Mr. Bedford and Mr. Suleman, the option based awards and the long-term incentive component of non-equity incentive plan compensation is calculated in Canadian dollars and has been converted into U.S. dollars for the table above at the Bank of Canada closing exchange rate on September 30, 2017 of \$1.00 = C\$1.248.
- (2) Calculated using the Offering Price on the applicable vesting date less the exercise price of the applicable Legacy Option.
- (3) Includes annual and long-term incentives and assumes that targets approved for the 2017 fiscal year are met.
- (4) Assumes that the vesting provisions in the RSUs, PSUs and Additional PSUs are triggered at the minimum levels. See “Executive Compensation – Other Compensation – The Legacy Plan”.

Retirement Plan Benefits

All of the Named Executive Officers participate in a defined contribution retirement savings plan. The Company together with its affiliates contribute the following amounts directly to the individuals' retirement savings account:

- (1) 5% of combined base salary and bonus (to a maximum of C\$13,005 in 2017) for Mr. Bedford and Mr. Suleman; and
- (2) 4% of combined base salary and bonus (to a maximum of \$10,800 for 2017) for Mr. Morris, Ms. Song and Mr. Hogan.

Defined Contribution Retirement Savings Plan Table (U.S.\$)

Name	Accumulated Value at Start of Year	Compensatory Amount⁽²⁾	Accumulated Value at Dec. 31, 2017
Geoff Bedford ⁽¹⁾	176,276	10,374	207,284
Rahim Suleman ⁽¹⁾	—	10,421	21,021
Kevin Morris	179,986	10,800	231,154
Shannon Song	982,048	10,800	1,146,161
Jeff Hogan	454,165	1,800	558,258

Notes:

- (1) For Messrs. Bedford and Suleman, the values are shown as converted from Canadian dollars to U.S. dollars at \$1.00 = C\$1.248, being the Bank of Canada closing rate on September 30, 2017.
- (2) Compensatory amount includes Company match of employee contributions, plus in the case of the U.S. 401(K), a Safe Harbor Match.

Stock Option Plan and Stock Options

After completion of the Arrangement, the Company will have 39,878,384 Common Shares issued and outstanding. This means that a total of 2,791,486 Options are currently available to be granted pursuant to the Stock Option Plan. As a rolling stock option plan, 7% of the outstanding Common Shares at any given time are available for options. In the event that an Option is exercised, cancelled, repurchased, expires unexercised, or is terminated in accordance with the Stock Option Plan prior to the exercise thereof, the Common Shares that were reserved for issuance in connection with such Option will be returned to the Stock Option Plan and will be available for reservation pursuant to a new grant of Options under the Stock Option Plan. See “*Options to Purchase Securities*”.

Stock Option Plan Terms

The Stock Option Plan authorizes the Board to grant stock options to the officers, directors, full-time employees and eligible consultants of the Company on the following terms:

Grant of Options

Subject to the terms of the Stock Option Plan and after reviewing any recommendations from the Compensation Committee, the Board selects the participants to whom options will be granted, the number of Common Shares to be optioned to each of them, the date or dates on which such options will be granted and the terms and conditions attaching to such options. The aggregate number of Common Shares reserved for issuance pursuant to all options granted to any one optionee shall not exceed 5% of the number of Common Shares outstanding on a non-diluted basis at the time of such grant. In addition, the issuance of Common Shares on the exercise of options to insiders (as such term is defined by the TSX Company Manual) pursuant to the Stock Option Plan and all other share compensation plans, within any one-year period shall not exceed 10% of the issued and outstanding shares; and the number of Common Shares issuable on exercise of Options held by Insiders, at any time, pursuant to the Stock Option Plan and all other share compensation plans, shall not exceed 10% of the issued and outstanding shares. The maximum number of Common Shares issuable on exercise of Options held by non-employee directors shall not exceed 1% of the issued and outstanding Common Shares. The maximum number of Common Shares issuable on exercise of Company Options held by non-employee directors shall not exceed 1% of the issued and outstanding Common Shares less the aggregate number of Common Shares reserved for issuance to such non-employee directors under any other share compensation arrangement and the total annual grant to any one non-employee director cannot exceed a grant value of \$100,000 (based upon a Black-Scholes calculation) and the grant value from all other share compensation arrangements shall not exceed \$150,000 per year per non-employee director in the aggregate.

Exercise Price

The Board shall fix the exercise price of an option which may not be lower than the volume weighted average trading price of the Common Shares for the five trading days immediately preceding the date of the grant of such options.

Term and Vesting Period of Options

Options are exercisable for periods of more than one year and less than seven years from the date the option was granted. Subject to the terms of the Stock Option Plan, the Board shall specify at the time of grant of options, the vesting period which is the maximum number of Common Shares that may be exercisable by such optionee in each year or other period during the term of the options. Absent such determination by the Board, the maximum number of Common Shares that may be exercised by an optionee during each of the first three years of the term of the Company Options shall be equal to one-third of the number of such Company Options granted.

Lapse of Options

In the event of the discharge of an optionee from the Company or a subsidiary for a wilful and substantial breach of such optionee's duties, all options granted to such optionee under the Stock Option Plan shall immediately cease and terminate. In the event of the resignation or termination of an optionee (other than for a wilful and substantial breach of such optionee's duties), such optionee may exercise each option then held by such optionee to the extent that such optionee was entitled to do so at the time of such resignation for a period of 90 days (or such later date as the Board may determine) following the effective date of such resignation (or such later date as the Board in its sole discretion may determine) or the expiry date of such options, whichever is earlier. In the event of the death of an optionee while a service provider, all options held by such optionee at the time of death which were exercisable at the time of death may be exercised by the optionee's legal representatives at any time until the first anniversary of the date of death. In the event of a take-over, arrangement (such as a merger, amalgamation or other similar form of business combination transaction), change in control or the sale of substantially all of the assets of the Company, options may be exercised within certain fixed time limits.

Adjustments

Appropriate adjustments in the number of Common Shares and in the exercise price of the options, shall be made to give effect to adjustments in the number of Common Shares resulting from any subdivisions, consolidations or reclassifications of the Common Shares, the payment of stock dividends by the Company or other relevant changes in the capital structure of the Company.

Non-Assignability of Options

Each Option granted under the Stock Option Plan is non-assignable by the optionee.

Amendments to Stock Option Plan

The Board may amend, vary or discontinue the Stock Option Plan at any time subject to certain regulatory restrictions as well as certain restrictions contained in the Stock Option Plan. Certain amendments or variances specified in the Stock Option Plan as not requiring shareholder approval are, along with the discontinuance of the Stock Option Plan, nevertheless subject to the approval thereof by any stock exchanges on which the Common Shares are listed and posted for trading. In addition, certain types of amendments such as, reductions in the exercise price of outstanding options (except in certain cases), extensions of the term of an option (except in limited circumstances), and increases in the limit on the number of securities issued or issuable to insiders pursuant to equity compensation plans, also require shareholder approval.

Employee Agreements and Termination and Change of Control Benefits

Each of the Named Executive Officers has employment agreements with Neo Cayman or a subsidiary thereof, that contain termination payment provisions. These agreements are reviewed from time to time and amended accordingly subject to Board approval.

Geoff Bedford – President and Chief Executive Officer

Geoff Bedford, the President and Chief Executive Officer, entered into an amended and restated employment agreement with Neo ULC on August 31, 2016, with an indefinite term. The employment agreement provides that Mr. Bedford will be employed as President and Chief Executive Officer of Neo Cayman and its affiliates.

If Neo ULC terminates Mr. Bedford's employment as a result of the death or disability of Mr. Bedford or willful failure to properly perform his duties, Neo ULC shall thereupon pay to him, in a single payment within 30 days of the date of termination, accrued salary, benefits, perquisites and vacation to the date of termination. The Company estimates that if Mr. Bedford's employment were to be terminated on December 31, 2017 for the reasons described above, no further payments would be made to Mr. Bedford beyond what is due to him up to such date.

Upon the termination by Neo ULC of the employment of Mr. Bedford other than for cause or Mr. Bedford terminates his employment for good reason, Neo ULC shall thereupon pay to him (i) in a single payment within 30 days of the date of termination, accrued vacation pay and perquisites, (ii) over a period of 24 months, an amount equal to twice his base salary, and (iii) employee benefits (other than short and long-term disability benefits) for the 24 month period set out in (ii) above. The Company estimates that if Mr. Bedford's employment were to be terminated on December 31, 2017 for any of the reasons described above, he would have been entitled to an aggregate payment of up to approximately \$1,027,900 (excluding supplementary benefits and other perquisites).

If, during the 24 months following a "change of control" (as defined in Mr. Bedford's employment agreement), Neo ULC terminates Mr. Bedford's employment, or Mr. Bedford terminates his employment for good reason, Neo ULC shall pay to him a lump sum "change of control" payment equivalent to the aggregate of (i) twice his then current base salary; (ii) the targeted bonus amount for the applicable year, (iii) in a single payment within 30 days of the date of termination, accrued vacation pay and perquisites, and (iv) employee benefits (other than short and long term disability benefits) for the 24 month period following the date of retirement. The Company currently estimates that in the event that the "change of control" provisions were triggered in 2017 and Mr. Bedford terminates his employment for good reason in accordance with his employment agreement with an effective date of December 31, 2017, Mr. Bedford would be entitled to a lump sum "change of control" payment of up to approximately \$1,428,500 (excluding supplementary benefits, value of accelerated equity vesting and other perquisites).

Rahim Suleman – Executive Vice President and Chief Financial Officer

Rahim Suleman, the Executive Vice President and Chief Financial Officer, entered into an employment agreement with Neo ULC on January 16, 2017, with an indefinite term. The employment agreement provides that Mr. Suleman will be employed as Executive Vice President and Chief Financial Officer of Neo Cayman and its affiliates.

If Neo ULC terminates Mr. Suleman's employment as a result of the death or disability of Mr. Suleman or willful failure to properly perform his duties, Neo ULC shall thereupon pay to him, in a single payment within 30 days of the date of termination, accrued salary, benefits, perquisites and vacation pay to the date of termination. The Company estimates that if Mr. Suleman's employment were to be terminated on December 31, 2017 for the reasons described above, no further payments would be made to Mr. Suleman beyond what is due to him on such date.

Upon the termination by Neo Cayman of the employment of Mr. Suleman other than for cause or Mr. Suleman terminates his employment for good reason, Neo Cayman shall thereupon pay to him (i) in a single payment within 30 days of the date of termination, accrued vacation pay and perquisites, (ii) over a period of up to 24 months, an amount equal to 18 months of his base salary plus one additional month of salary for every full year of service, and (iii) employee benefits (other than short and long-term disability benefits) for the 24 month period set out in (ii) above. The Company estimates that if Mr. Suleman's employment were to be terminated on December 31, 2017 for any of the reasons described above, he would be entitled to an aggregate payment of up to approximately \$597,900 (excluding supplementary benefits and other perquisites).

If, during the 24 months following a "change of control" (as defined in Mr. Suleman's employment agreement), Neo ULC terminates Mr. Suleman's employment, or Mr. Suleman terminates his employment for good reason, Neo ULC shall pay to him a lump sum "change of control" payment equivalent to the aggregate of (i) twice his then current base salary; (ii) the targeted bonus amount for the applicable year, (iii) in a single payment within 30 days of the date

of termination, accrued vacation pay and perquisites, and (iv) employee benefits (other than short and long-term disability benefits) for the 24 month period following the date of retirement. The Company currently estimates that in the event that the “change of control” provisions were triggered in 2017 and Mr. Suleman terminates his employment for good reason in accordance with his employment agreement with an effective date of December 31, 2017, Mr. Suleman would be entitled to a lump sum “change of control” payment of up to approximately \$1,029,700 (excluding supplementary benefits, value from accelerated equity vesting and other perquisites).

In the event that the Selling Shareholder and its affiliates cease to own at least 51% of the Company as a result of the Offering or otherwise prior to December 31, 2018, and the pre-tax value of Mr. Suleman’s option and equity-based grants pursuant to his employment agreement is less than \$2 million, Mr. Suleman will receive cash compensation equal to the difference between the \$2 million value and the value of the compensation awards.

Kevin Morris – Executive Vice President and Chief Operating Officer

Kevin Morris, the Executive Vice President and Chief Operating Officer, entered into an amended and restated employment agreement with Neo Chemicals & Oxides, LLC (“**Neo C&O**”) on August 31, 2016, with an indefinite term. The employment agreement provides that Mr. Morris will be employed as Executive Vice President and Chief Operating Officer of Neo Cayman and its affiliates.

If Neo C&O terminates Mr. Morris’ employment as a result of the death or disability of Mr. Morris or willful failure to properly perform his duties, Neo C&O shall thereupon pay to him, in a single payment within 30 days of the date of termination, accrued salary, benefits, perquisites and vacation to the date of termination. The Company estimates that if Mr. Morris’ employment were to be terminated on December 31, 2017 for the reasons described above, no further payments would be made to Mr. Morris beyond what is due to him up to such date.

Upon the termination by Neo C&O of the employment of Mr. Morris for other than for cause or Mr. Morris terminates his employment for good reason, Neo C&O shall thereupon pay to him (i) in a single payment within 30 days of the date of termination, accrued vacation pay and perquisites, (ii) over a period of 24 months, an amount equal to 18 months of his base salary plus one additional month of salary for every full year of services, and (iii) employee benefits (other than short and long-term disability benefits) for the 18 month period. The Company estimates that if Mr. Morris’ employment were to be terminated on December 31, 2017 for any of the reasons described above, he would have been entitled to an aggregate payment of up to approximately \$817,300 (excluding supplementary benefits and other perquisites).

If, during the 24 months following a “change of control” (as defined in Mr. Morris’ employment agreement), Neo C&O terminates Mr. Morris’ employment, or Mr. Morris terminates his employment for good reason, Neo C&O shall pay to him a lump sum “change of control” payment equivalent to the aggregate of (i) twice his then current base salary; (ii) the targeted bonus amount for the applicable year, (iii) in a single payment within 30 days of the date of termination, accrued vacation pay and perquisites, and (iv) employee benefits (other than short and long-term disability benefits) for the 18 month period following the date of retirement. The Company currently estimates that in the event that the “change of control” provisions were triggered in 2016 and Mr. Morris terminates his employment for good reason accordance with his employment agreement with an effective date of December 31, 2017, Mr. Morris would be entitled to a lump sum “change of control” payment of up to approximately \$1,084,300 (excluding supplementary benefits value, from accelerated equity vesting and other perquisites).

Shannon Song – Executive Vice President, Magnequench

Shannon Song, the Executive Vice President, Magnequench, entered into an employment agreement with Neo Performance Materials (Singapore) Pte. Ltd. (“**NPM Singapore**”), on August 31, 2016 pursuant to which she will be employed as Executive Vice President, Magnequench until December 31, 2017 (the “**Employment Period**”), and has agreed to be available to the Chief Operating Officer until March 31, 2018 in order to facilitate the transition (the “**Transition Period**”). Ms. Song’s employment agreement includes a foreign service assignment component, in respect of her working in China, which includes the payment of allowances for housing, goods and services tax and exchange rate differentials as well as tax counselling and assistance.

If NPM Singapore terminates Ms. Song’s employment during the Employment Period or the Transition Period as a result of the death or disability of Ms. Song or willful failure to properly perform her duties, NPM Singapore shall

thereupon pay to her, in a single payment within 30 days of the date of termination, accrued salary, benefits, perquisites and vacation pay to the date of termination. The Company estimates that if Ms. Song's employment were to be terminated on December 31, 2017 for any of the reasons described above, no further payments would be made to Ms. Song beyond what is due to her up to such date.

Upon the termination by NPM Singapore of the employment of Ms. Song other than for cause or Ms. Song terminates her employment for good reason, NPM Singapore shall thereupon pay to her (i) in a single payment within 30 days of the date of termination, accrued vacation pay, bonus and perquisites, (ii) over a period of up to 12 months, an amount equal to 12 months of her base salary, and (iii) employee benefits (other than short and long-term disability benefits) for the 12 month period set out in (ii) above. The Company estimates that if Ms. Song's employment were to be terminated on December 31, 2017 for the reasons described above, she would be entitled to an aggregate payment of up to approximately \$445,100 (excluding supplementary benefits and other perquisites).

In the event that the Selling Shareholder and its affiliates ceases to own at least 51% of the Company as a result of the Offering or otherwise, and the Selling Shareholder realizes an internal rate of return at certain enumerated percentages within set time frames, Ms. Song will receive cash compensation of up to a maximum of \$1 million.

Jeff Hogan – Executive Vice President, Chemicals & Oxides

Jeff Hogan, the Executive Vice President, Chemical & Oxides, entered into an amended and restated employment agreement with Neo C&O on August 31, 2016, with an indefinite term. The employment agreement provides that Mr. Hogan will be employed as Executive Vice President, Chemicals & Oxides.

If Neo C&O terminates Mr. Hogan's employment as a result of the death or disability of Mr. Hogan or willful failure to properly perform his duties, Neo C&O shall thereupon pay to him, in a single payment within 30 days of the date of termination, accrued salary, benefits, perquisites and vacation pay to the date of termination. The Company estimates that if Mr. Hogan's employment were to be terminated on December 31, 2017 for any of the reasons described above, no further payments would be made to Mr. Hogan beyond what is due to him up to such date.

Upon the termination by Neo C&O of the employment of Mr. Hogan other than for cause or Mr. Hogan terminates his employment for good reason, the Company shall thereupon pay to him (i) in a single payment within 30 days of the date of termination, accrued vacation pay and perquisites, (ii) an amount equal to twice his base salary over a period of 24 months, and (iii) employee benefits (other than short and long-term disability benefits) for 18 months. The Company estimates that if Mr. Hogan's employment were to be terminated on December 31, 2017 for the reasons described above, he would have been entitled to an aggregate payment of up to approximately \$760,600 (excluding supplementary benefits and other perquisites).

If, during the 24 months following a "change of control" (as defined in Mr. Hogan's employment agreement), Neo C&O terminates Mr. Hogan's employment, or Mr. Hogan terminates his employment for good reason, Neo C&O shall pay to him a lump sum "change of control" payment equivalent to the aggregate of (i) twice his then current base salary; (ii) the targeted bonus amount for the applicable year, (iii) in a single payment within 30 days of the date of termination, accrued vacation pay and perquisites, and (iv) employee benefits (other than short and long-term disability benefits) for the 18 month period following the date of retirement. The Company currently estimates that in the event that the "change of control" provisions were triggered in 2016 and Mr. Hogan terminates his employment for good reason in accordance with his employment agreement with an effective date of December 31, 2017, Mr. Hogan would be entitled to a lump sum "change of control" payment of up to approximately \$947,300 (excluding supplementary benefits value accelerated equity vesting and other perquisites).

Director Compensation

The directors' compensation program is designed to attract and retain qualified individuals to serve on the Board. It is anticipated that following Closing Date, non-executive directors will be paid an annual retainer fee of \$ ● , with additional amounts paid to each chair of the Board, Compensation Committee and Audit Committee.

All directors are entitled to reimbursement of reasonable expenses incurred by them acting in their capacity as directors.

Indemnification and Insurance

The Company maintains director and officer liability insurance to limit the Company's exposure to claims against, and to protect, its directors and officers. In addition, the Company or Neo, as the case may be, has entered into indemnification agreements with each of its directors and officers. The indemnification agreements require that the Company or Neo, as the case may be, indemnify and hold the indemnitees harmless to the greatest extent permitted by law for liabilities arising out of the indemnitees' service to the Company as directors and officers, provided that the indemnitees acted honestly and in good faith and in a manner the indemnitees reasonably believed to be in, or not opposed to, the Company's best interests. The indemnification agreements also provide for the advancement of defence expenses to the indemnitees by the Company.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

No existing or proposed director, executive officer or senior officer of the Company or any associate of any of them, was indebted to the Company as at the financial year ended December 31, 2016, or is currently indebted to the Company.

CORPORATE GOVERNANCE

The Company's articles of incorporation provide that its Board be comprised of a minimum of three and a maximum of 15 directors. In accordance with the OBCA, the Board may appoint one or more additional directors who shall hold office until the close of the next annual meeting of shareholders, provided that the total number of directors so appointed may not exceed one-third of the number of directors elected at the previous annual meeting of shareholders. Further particulars of the process by which compensation for the executive officers is determined is provided under "*Executive Compensation – Compensation Discussion and Analysis*".

The Company's Board is currently comprised of nine directors: Constantine Karayannopoulos, Eric Noyrez, Geoff Bedford, Nicholas Basso, Brook Hinchman, Edgar Lee, Claire Kennedy, Aman Kumar and Emily Stephens.

The Board has established the Audit Committee and the Compensation Committee and has approved mandates for each of these committees, which are described below. The Board has delegated to the applicable committee those duties and responsibilities set out in each committee's mandate. The mandate of the Board, as well as the mandates of various Board committees, set out in writing the responsibilities of the Board and the committees for supervising the Chief Executive Officer.

The Company currently does not have a nominating committee and the Board as a whole identifies new candidates for the Board where and when appropriate, who have expertise in an area of strategic importance to the Company, a willingness to serve on the Board and any of its committees and the ability to devote sufficient time to Board service.

Board of Directors Mandate

The Board, directly and through its committees, oversees management and is responsible for the stewardship of the Company, ensuring that long-term value is being created for all of its shareholders while considering the interests of the Company's various stakeholders including shareholders, employees, clients, suppliers and the community.

The responsibilities of the Board include, among other things, ensuring that:

- all Board members understand the business of the Company;
- processes are in place to effectively plan, monitor and manage the long-term viability of the Company;
- there is a balance between long and short-term goals and risks;
- management's performance is adequate and that an adequate management succession plan is in place;
- communication with shareholders and other stakeholders is timely and effective;
- the Board shall adopt appropriate procedures designed to permit the Board to receive feedback from shareholders on material issues;

- business is conducted ethically and in compliance with applicable laws and regulations; and
- all matters requiring shareholder approval are referred to the Board.

A copy of the mandate of the Board is attached as Appendix “A” to this Prospectus.

Independence

The Board is comprised of nine directors: two of whom are independent of management and Oaktree (being Eric Noyrez and Claire Kennedy); five of whom are not independent as they are executive officers of Oaktree (being Nicholas Basso, Brook Hinchman, Aman Kumar, Edgar Lee and Emily Stephens, see “– *Oaktree Representation*” below); and two of whom (being Geoff Bedford, the President and Chief Executive Officer of the Company, and Constantine Karayannopoulos, the former President and Chief Executive Officer of Molycorp and NEM) are not independent.

In addition to chairing all Board meetings, Mr. Karayannopoulos’ role as the Chair is to facilitate and chair discussions among the Company’s independent directors, facilitate communication between the independent directors and the Company’s management and, if and when necessary, act as a spokesperson on behalf of the Board in dealing with the press and members of the public. The Board expects to hold regularly scheduled meetings as well as ad hoc meetings from time to time.

The Board recognizes the importance of independent leadership on the Board, and has appointed Eric Noyrez, independent director, as Lead Director. The Board has developed a formal position description for the Lead Director of the Board. The position description for the Lead Director of the Board provides, among other things, that the Lead Director will: (i) provide input to the Chair of the Board on preparation of agendas for meetings of the Board; (ii) assist the Chair to endeavour to ensure Board leadership responsibilities are conducted in a manner that will ensure that the Board is able to function independently of management; (iii) consider, and allow for, when appropriate, a meeting of all independent directors, so that Board meetings can take place without management being present; and (iv) endeavour to ensure reasonable procedures are in place for directors to engage outside advisors at the expense of the Company in appropriate circumstances, subject to his or her prior approval.

The Board will delegate a number of responsibilities to the Audit Committee and the Compensation Committee. Where potential conflicts arise during a director’s tenure on the Board, such conflicts are expected to be immediately disclosed to the Board.

Oaktree Representation

Following completion of the Arrangement and prior to the completion of the Offering, the Selling Shareholder will own approximately 95% of the Common Shares. Following the completion of the Offering (assuming no exercise of the Over-Allotment Option), the Selling Shareholder is expected to own approximately ● % of the Common Shares. Oaktree (and its affiliates, which includes the Selling Shareholder) has currently nominated five out of the Company’s nine directors. The Company and Oaktree have agreed that Oaktree will continue to be entitled to nominate such number of directors for so long as they, as a group, own, control or direct at least 50% of the outstanding Common Shares (on a non-diluted basis), provided that the Board shall transition to a majority of independent directors at the earliest of December 31, 2018 or such time as Oaktree own, control or direct less than 50% of the outstanding Common Shares as set out in the schedule below:

- to up to four of the Company’s directors once Oaktree (including its affiliates), as a group, own, control or direct less than 50% but not less than 40% of the outstanding Common Shares (on a non-diluted basis);
- to up to three of the Company’s directors once Oaktree (including its affiliates), as a group, own, control or direct less than 40% but not less than 30% of the outstanding Common Shares (on a non-diluted basis);
- to up to two of the Company’s directors once Oaktree (including its affiliates), as a group, own, control or direct less than 30% but not less than 20% of the outstanding Common Shares (on a non-diluted basis);
- to up to one of the Company’s directors once Oaktree (including its affiliates), as a group, own, control or direct less than 20% but not less than 10% of the Company’s outstanding Common Shares (on a non-diluted basis); and

- (e) to none of the Company’s directors once Oaktree (including its affiliates), as a group, own, control or direct less than 10% of the outstanding Common Shares (on a non-diluted basis).

Audit Committee

The Audit Committee of the Company is responsible for the Company’s financial reporting process and the quality of its financial reporting. The Audit Committee is charged with the mandate of providing independent review and oversight of the Company’s financial reporting process, the system of internal control and management of financial risks, and the audit process, including the selection, oversight and compensation of the Company’s external auditors. In performing its duties, the Audit Committee maintains effective working relationships with the Board, management, and the external auditors and monitors the independence of those auditors.

The full text of the charter of the Company’s Audit Committee is attached hereto as Schedule “B”.

Composition of the Audit Committee

The Board members of the Company’s Audit Committee are:

<u>Name</u>	<u>Independent⁽¹⁾</u>	<u>Financially Literate⁽²⁾</u>
Claire Kennedy (Chair)	Yes	Yes
Eric Noyrez	Yes	Yes
Brook Hinchman	No	Yes

Notes:

- (1) A member of an audit committee is independent if the member has no direct or indirect material relationship with the Company, which could, in the view of the Board, reasonably interfere with the exercise of a member’s independent judgment. The Company is relying on the exemption provided in section 3.2(2) of National Instrument 52-110 – *Audit Committees*, which provides the Company a period of up to one year from the date of the receipt for the final Prospectus, to appoint a third independent director.
- (2) An individual is financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company’s financial statements.

Relevant Education and Experience

<u>Name of Member</u>	<u>Relevant Experience and Qualifications</u>
Claire Kennedy (Chair)	Ms. Kennedy joined the Board in October 2017 and has been appointed to the Audit Committee. Ms. Kennedy was a member of the board of directors of NEM from February 2010 to June 2012 and sat on the Audit Committee. Ms. Kennedy has been a Partner in the Toronto office of Bennett Jones LLP since 2009, where she provides corporate tax and transfer pricing advice to clients. Ms. Kennedy is a director of the Bank of Canada, the nation's central bank, and she serves on the Audit & Finance and Human Resources committees, and is Chair of the Corporate Governance Committee. She is also a director of Alamos Gold Inc., which is listed on the TSX and NYSE. Claire received her ICD.D designation from the Institute of Corporate Directors and she has completed the Making Corporate Boards More Effective program at Harvard Business School. Ms. Kennedy is currently enrolled in the Advanced Management Program at the University of Chicago's Booth School of Business. She is a Professional Engineer and holds a Bachelor of Laws degree from Queen's University and a Bachelor of Applied Science degree in Chemical Engineering from the University of Toronto. Claire is also Chair of the Governing Council of the University of Toronto and is a member of the Dean's Advisory Board at Rotman.
Eric Noyrez	Mr. Noyrez has been an Independent Director of Neo Cayman since August 31, 2016. He shares his business activities as a Board member and advisor. He previously served as the Chief Executive Officer and Executive Director of Lynas Corporation, an integrated rare earth mining and separation company, from March 2013 to June 2014, President from March 2011 to March 2013 and Chief Operating Officer from February 2010 to March 2013.
Brook Hinchman	Mr. Hinchman has been a director of Neo C&O since August 31, 2016. Mr. Hinchman is an investment professional in the Opportunities Funds group of Oaktree Capital Management, where he is Senior Vice President. Prior to joining Oaktree Capital Management in 2010, Mr. Hinchman spent four years at Goldman, Sachs & Co., most recently in the Merchant Banking division. Mr. Hinchman received a B.B.A. degree in finance from the Tippie College of Business at the University of Iowa.

Audit Committee Oversight

Since the commencement of the Company's most recently completed financial year, there has not been a recommendation of the Audit Committee to nominate or compensate an external auditor which was not adopted by the Board.

Pre-Approval Policies and Procedures

In the event that the Company wishes to retain the services of the Company's external auditors for any non-audit services, prior approval of the Audit Committee must be obtained.

Audit Fees

The Company has not yet completed a full fiscal year and as such has not paid its auditors any fees.

Orientation and Continuing Education

New directors of the Company will participate in an initial information session on the Company in the presence of its senior executive officers to learn about, among other things, the business of the Company, its financial situation and its strategic planning. In addition, new directors will be furnished with appropriate documentation, providing them with information about, among other matters, the corporate governance practices of the Company, the structure of the Board and its committees, the Company's history, its commercial activities, its corporate organization, the charters of the Board and its committees, the Company's articles of incorporation and by-laws, the Code of Conduct (as defined below) and other relevant corporate policies.

The Company will encourage all directors to attend continuing education programs and intends to facilitate such continuing education of its directors by providing them with information on upcoming courses and seminars that may be relevant to their role as directors or hosting brief information sessions during Board meetings by invited external advisors. In addition, the Company's management will periodically make presentations to the directors on various topics, trends and issues related to the Company's activities during meetings of the Board or its committees, which will be intended to help the directors to constantly improve their knowledge about the Company and its business.

Ethical Business Conduct

The Board has adopted a written Code of Conduct (the "**Code of Conduct**") that applies to all of its directors, officers and employees, as well as its direct and indirect subsidiaries. The objective of the Code of Conduct is to provide guidelines for demonstrating the highest standard of business conduct and enhancing its reputation for honesty, integrity and the faithful performance of undertakings. The Code of Conduct addresses maintaining a positive work environment, conflicts of interest, confidentiality, use and protection of the Company's assets and inventions, use of the Company's email and Internet services, financial integrity, compliance with laws and reporting misconduct. As part of its Code of Conduct, any person subject to the Code of Conduct is required to avoid any activity, interest (financial or otherwise) or relationship that would create or appear to create a conflict of interest.

The directors are responsible for monitoring compliance with the Code of Conduct, for regularly assessing its adequacy, for interpreting the Code of Conduct in any particular situation and for approving changes to the Code of Conduct from time to time.

Directors and executive officers are required by applicable law and the Company's corporate governance practices and policies to promptly disclose any potential conflict of interest that may arise. If a director or executive officer has a material interest in an agreement or transaction, applicable law and principles of sound corporate governance require them to declare the interest in writing and where required by applicable law, to abstain from voting with respect to such agreement or transaction.

A copy of the Code of Conduct may be obtained free of charge by contacting the Company and will be available for review under the Company's profile on the SEDAR website at www.sedar.com upon the completion of the Offering.

The Company has also adopted a disclosure policy, which complements the obligations of its directors, officers and employees under the Code of Conduct.

Assessments

The Board does not formally review the contribution and effectiveness of the Board, its members or committees. The Board believes that its size facilitates an informal review process through discussion and evaluation between the Chair of the Board, the Lead Director, the Chief Executive Officer and the Chair of the Compensation Committee.

Majority Voting Policy

In accordance with the requirements of the TSX, the Company will adopt a majority voting policy in director elections that will apply at any meeting of its shareholders where an uncontested election of directors is held. Pursuant to this policy, if the number of proxy votes withheld for a particular director nominee is greater than the votes for such director, the director nominee will be required to submit his or her resignation as a director to the Chair of the Board promptly following the applicable shareholders' meeting. Following receipt of the resignation, the Board will consider whether or not to accept the offer of resignation, and will do so absent exceptional circumstances. Within 90 days following the applicable shareholders' meeting, the Board shall publicly disclose its decision whether or not to accept the applicable director's resignation, including the reasons for rejecting the resignation, if applicable. A director who tenders his or her resignation pursuant to this policy will not be permitted to participate in any meeting of the Board at which the resignation is considered.

Board Removal

The Company has not adopted term limits or other mechanisms of Board renewal for directors of the Company. The Board believes that the need to have experienced directors who are familiar with the business of the Company

must be balanced with the need for renewal, fresh perspectives and a healthy skepticism when assessing management and its recommendations. In addition, as mentioned above, the Board undertakes an assessment process that evaluates its effectiveness.

While term limits can help ensure the Board gains fresh perspective, the Board believes that term limits have the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and thereby provide an increasing contribution to the Board as a whole.

Board and Executive Officer Diversity

The Company recognizes and embraces the benefits of having diversity on the Board and in its senior management. Presently, the Company has one female executive officer, representing approximately 17% of the executive officers of the Company, and two female directors, representing approximately 22% of the directors of the Company.

The Company also recognizes that the Board and its senior management appointments must be based on performance, ability, merit and potential. Therefore, the Company ensures a merit-based competitive process for appointments. The Company's commitment to diversity will include ensuring that diversity is fully considered by the Board in identifying, evaluating and recommending Board appointees/nominees. Accordingly, the Company has not adopted a diversity policy at this time.

With respect to the Board composition, as appropriate, the Board will: (i) assess the effectiveness of the Board appointment/nomination process at achieving the Company's diversity objectives; and (ii) consider and, if determined advisable, recommend for adoption, measurable objectives for achieving diversity on the Board. At any given time, the Board may seek to adjust one or more objectives concerning diversity and measure progress accordingly.

By-Laws

Advance Notice Provisions

The by-laws of the Company include certain advance notice provisions with respect to the election of directors (the "**Advance Notice Provisions**"). The Advance Notice Provisions are intended to: (i) facilitate orderly and efficient annual general meetings or, where the need arises, special meetings; (ii) ensure that all shareholders receive adequate notice of Board nominations and sufficient information with respect to all nominees; and (iii) allow shareholders to register an informed vote. Only persons who are nominated by shareholders in accordance with the Advance Notice Provisions will be eligible for election as directors at any annual meeting of shareholders, or at any special meeting of shareholders if one of the purposes for which the special meeting was called was the election of directors.

Under the Advance Notice Provisions, a shareholder wishing to nominate a director would be required to provide the Company prior notice, in the prescribed form, within the prescribed time periods. These time periods include: (i) in the case of an annual meeting of shareholders (including annual and special meetings), not less than 30 days prior to the date of the annual meeting of shareholders; provided, that if the first public announcement of the date of the annual meeting of shareholders (the "**Notice Date**") is less than 50 days before the meeting date, not later than the close of business on the 10th day following the Notice Date; and (ii) in the case of a special meeting of shareholders (which is not also an annual meeting) called for any purpose which includes electing directors, not later than the close of business on the 15th day following the Notice Date, provided that, in either instance, if notice-and-access (as defined in National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer*) is used for delivery of proxy-related materials in respect of a meeting described above, and the Notice Date in respect of the meeting is not less than 50 days prior to the date of the applicable meeting, the notice must be received not later than the close of business on the 40th day before the applicable meeting.

Forum Selection

The by-laws of the Company include a forum selection provision in its by-laws that provides that, unless the Company consents in writing to the selection of an alternative forum, the Superior Court of Ontario (Commercial List), Canada and the appellate courts therefrom will be the sole and exclusive forum for: (i) any derivative action or

proceeding brought on the Company's behalf; (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any of the Company's directors, officers, or other employees to the Company; (iii) any action or proceeding asserting a claim arising pursuant to any provision of the applicable corporate laws or the articles of incorporation or the by-laws of the Company (as either may be amended from time to time); or (iv) any action or proceeding asserting a claim otherwise related to the relationships among the Company, its affiliates and their respective shareholders, directors and/or officers, but excluding claims related to the business carried on by the Company or its affiliates and their respective shareholders, directors and/or officers. The forum selection provision also provides that the Company's securityholders are deemed to have consented to personal jurisdiction in the Province of Ontario and to service of process on their counsel in any foreign action initiated in violation of the foregoing provisions.

PLAN OF DISTRIBUTION

This Prospectus qualifies the distribution of the Offered Shares. The Selling Shareholder is offering the Offered Shares through the Underwriters, in accordance with the Underwriting Agreement. Subject to the terms and conditions of the Underwriting Agreement, an aggregate of ● Offered Shares will be issued and distributed, and the Underwriters have severally agreed to purchase an aggregate of ● Offered Shares, at the Offering Price.

Closing is expected to occur on or about ●, 2017 or such later date as the Company, the Selling Shareholder and the Underwriters may agree, however the Offered Shares are to be taken up by the Underwriters, if at all, on or before 90 days following the Effective Date of this Prospectus, at the Offering Price payable in cash to the Selling Shareholder against delivery of the Offered Shares. The Offering Price of the Offered Shares offered under the Offering will be determined by arm's length negotiation between the Company, the Selling Shareholder and the Underwriters.

The Selling Shareholder has agreed to pay a cash fee to the Underwriters in an amount calculated as ● % of the gross cash proceeds realized under the Offering. The estimated fee will be \$ ● (\$ ● if the Over-Allotment Option is exercised in full). The Underwriters' Commission is payable on the Closing Date. The Company has agreed to reimburse the Underwriters for their reasonable expenses in connection with the Offering. The Underwriting Agreement also provides that each of the Company and the Selling Shareholder will indemnify the Underwriters, their respective affiliates and each of their respective directors, officers, employees, partners, agents and each other person, if any, controlling an Underwriter or any of its subsidiaries against certain liabilities, claims, actions, complaints, losses, costs, fines, penalties, taxes, interest, damages and expenses in connection with the Offering.

The obligations of the Underwriters are several and not joint or joint and several, are subject to certain closing conditions, and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. If an Underwriter fails to purchase the Offered Shares which it has agreed to purchase, the remaining Underwriters may terminate their obligation to purchase their allotment of Offered Shares, or may, but are not obligated to, purchase the Offered Shares not purchased by the Underwriter or Underwriters which fail to purchase; provided, however, that if the aggregate number of Offered Shares not so purchased is not more than 10% of the Offered Shares agreed to be purchased by the Underwriters, then each of the other Underwriters shall be obliged to purchase severally the Offered Shares not taken up, on a pro rata basis or in such other proportions as they may agree among themselves. The Underwriters are not required to take or pay for the Offered Shares covered by the Over-Allotment Option described below.

The Offering is subject to a number of conditions, including receipt and acceptance of the Offered Shares by the Underwriters and the Underwriters' right to reject orders in whole or in part and compliance with industry-standard closing conditions. Under the terms of the Underwriting Agreement, an Underwriter may, at its discretion, terminate its obligations under the Underwriting Agreement prior to closing upon the occurrence of certain events, including "material change out", "disaster out", "proceedings to restrict distribution out" and "market out" clauses, and may also be terminated upon the occurrence of certain stated events.

The Underwriters propose to offer the Offered Shares initially at the Offering Price specified on the cover page of this Prospectus. After the Underwriters have made a reasonable effort to sell all of the Offered Shares offered by this Prospectus at such price, the initially stated Offering Price may be decreased, and further changed from time to time, to

an amount not greater than such initially stated price, and the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to the Selling Shareholder for the Offered Shares. Any such reduction in price will not affect the proceeds received by the Selling Shareholder.

In connection with the Offering, certain of the Underwriters or other securities dealers may distribute this Prospectus electronically.

The Offering is being made in each of the provinces and territories of Canada through those Underwriters or their affiliates who are registered to offer the Offered Shares for sale in such provinces and territories and such other registered dealers as may be designated by the Underwriters. Subject to applicable law and the provisions of the Underwriting Agreement, the Underwriters may offer the Offered Shares outside of Canada.

Upon the completion of the Offering, assuming the Offering is fully subscribed, the Company expects to have a total of ● Common Shares issued and outstanding on a non-diluted basis.

Subscriptions for Shares will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. Offered Shares sold pursuant to the Offering will be registered in the name of CDS and electronically deposited with CDS on the Closing Date using the non-certificated inventory system. Purchasers of Offered Shares will receive only a customer confirmation from the Underwriters or other registered dealer who is a CDS participant and from or through whom a beneficial interest in the Offered Shares is acquired.

Over-Allotment Option

The Selling Shareholder has granted to the Underwriters the Over-Allotment Option, exercisable at the Underwriters' sole discretion, in whole or in part, from time to time, for a period of 30 days after the Closing Date, to purchase from the Selling Shareholder up to an additional ● Common Shares (representing 15% of the Offering) at the Offering Price and on the same terms as set forth above, for the purpose of covering over-allocations, if any, made by the Underwriters in connection with the Offering. The Selling Shareholder has agreed to pay the Underwriters the same Underwriters' Commission for each Additional Share purchased from it on exercise of the Over-Allotment Option. If the Over-Allotment Option is exercised in full, the total "Price to Public", "Underwriters' Commission" and "Net Proceeds to the Selling Shareholder" (before deducting the expenses of the Offering) will be C\$ ● , C\$ ● and C\$ ● , respectively. This Prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares to be delivered upon the exercise of the Over-Allotment Option. A purchaser who acquires Offered Shares forming part of the Over-Allotment Option acquires such Offered Shares under this Prospectus, regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

Price Stabilization, Short Positions and Passive Market Making

In connection with the Offering, the Underwriters may over-allocate or effect transactions which stabilize or maintain the market price of the Offered Shares at levels other than those which otherwise might prevail on the open market, including:

- stabilizing transactions;
- short sales;
- purchases to cover positions created by short sales;
- imposition of penalty bids; and
- syndicate covering transactions.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or slowing a decline in the market price of the Offered Shares while the Offering is in progress. These transactions may also include making short

sales of the Offered Shares, which involve the sale by the Underwriters of a greater number of Offered Shares than they are required to purchase in the Offering. Short sales may be “covered short sales”, which are short positions in an amount not greater than the Over-Allotment Option, or may be “naked short sales”, which are short positions in excess of that amount. The Underwriters may close out any covered short position either by exercising the Over-Allotment Option, in whole or in part, or by purchasing Offered Shares in the open market. In making this determination, the Underwriters will consider, among other things, the price of Offered Shares available for purchase in the open market compared with the price at which they may purchase Offered Shares through the Over-Allotment Option. The Underwriters must close out any naked short position by purchasing Offered Shares in the open market.

A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Offered Shares in the open market that could adversely affect purchasers who purchase in the Offering.

In addition, in accordance with rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period of distribution, bid for or purchase Offered Shares. The foregoing restriction is, however, subject to exceptions where the bid or purchase is not made for the purpose of creating actual or apparent active trading in, or raising the price of, the Offered Shares. These exceptions include a bid or purchase permitted under the by-laws and rules of applicable regulatory authorities and the applicable stock exchange, including the Universal Market Integrity Rules for Canadian Marketplaces, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

As a result of these activities, the price of the Offered Shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on any stock exchange on which the Offered Shares are listed, in the over-the-counter market, or otherwise.

Pricing of the Offering

It is anticipated that the Offering Price will be between C\$ ● and C\$ ● per Offered Share for aggregate gross proceeds of approximately C\$ ● million. The final Offering Price will be negotiated at arm’s length among the Company, the Selling Shareholder and the Underwriters.

Expenses Related to the Offering

It is estimated that the total expenses of the Offering (not including the Underwriters’ Commission), which the Company has agreed to pay, will be approximately C\$ ●. In addition, the Company may incur additional fees, not anticipated to be material, to certain third parties in connection with the Offering.

Restrictions on Securities Distributions

Pursuant to the Underwriting Agreement, the Company agrees that it will not issue, announce any issue or agree to issue any securities of the Company, other than issuances: (i) under existing director, employee or consultant stock option, bonus or compensation plans; (ii) under director or employee stock options or bonuses granted subsequently in accordance with regulatory approval; or (iii) of Common Shares issued as consideration for the acquisition by the Company or a direct or indirect subsidiary of the Company, of any property, assets or shares, whether by way of acquisition, merger, amalgamation, plan of arrangement, business combination, take-over bid or otherwise, during the period beginning as of the date of this Prospectus and ending 180 days after the Closing Date, without the written agreement of the Underwriters, such agreement not to be unreasonably withheld. In addition, pursuant to the Underwriting Agreement, each of the Company’s executive officers and directors and certain shareholders (including the Selling Shareholder) will agree that he, she or it will not, directly or indirectly, without the written agreement of the Underwriters, such agreement not to be unreasonably withheld, offer or sell or grant any option, warrant or other right to purchase or agree to issue or sell or otherwise lend, transfer, assign or dispose of any Offered Shares or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Offered Shares, or agree or publicly announce any intention to do any of the foregoing during the period beginning as of the date of this Prospectus and ending 180 days after the Closing Date, subject to certain limited exceptions.

Listing of Shares

The Company intends to apply to have its Common Shares listed on the TSX. Such listing is subject to approval by the TSX of the Company's listing application and fulfillment by the Company of all of the requirements and conditions of the TSX. The TSX has not conditionally approved the listing of the Common Shares and there is no assurance that the TSX will approve the Company's listing application.

U.S. Sales

The Offered Shares offered hereby have not and will not be registered under the U.S. Securities Act or any state securities laws and, subject to certain exemptions therefrom, may not be offered, sold, transferred, delivered or otherwise disposed of, directly or indirectly, within the United States. The Underwriters have agreed that they will not offer, sell, transfer, deliver or otherwise dispose of, directly or indirectly, the Offered Shares at any time within the United States except pursuant to the exemption from registration provided by Rule 144A under the U.S. Securities Act.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the Offered Shares in the United States. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Common Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration under the U.S. Securities Act.

The Offered Shares sold to, or for the account or benefit of, persons in the United States will be "restricted securities" within the meaning of Rule 144(a)(3) of the U.S. Securities Act and may only be offered, sold, pledged or otherwise transferred pursuant to certain exemptions for the registration requirements of the U.S. Securities Act and any applicable state securities laws.

RISK FACTORS

In addition to other information contained in this Prospectus, prospective investors should carefully consider the following factors before purchasing the Offered Shares offered hereby. All risk factors should be considered because they could cause the Company's actual results or financial condition to differ materially from those projected in forward-looking statements contained elsewhere in this Prospectus. The following is not an all-inclusive listing of risks, although the Company believes these are the more material risks that the Company faces. Risks and uncertainties that are either not known to the Company or that the Company considers at this time to be immaterial or insignificant could also be detrimental to the ongoing affairs of the Company. If any of the these risks occur, the Company's business, financial position, results of operations or cash flows could be materially adversely affected.

Risks Related to the Offering

No Market for Securities

Prior to this Offering, there was no public trading of the Company's securities, including the Common Shares, and there is no assurance that such securities of the Company will be listed for trading on a stock exchange, or if listed, will provide a liquid market for securities. Until the Common Shares are listed on a stock exchange, holders of Common Shares may not be able to sell their Common Shares. Even if a listing is obtained, there can be no assurance that an active public market for the Common Shares will develop or be sustained after completion of the Offering. The Offering was determined by negotiation among the Selling Shareholder, the Underwriters and the Company and was based on several factors, and may bear no relationship to the price that will prevail in the public market. The holding of Common Shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Common Shares should not be purchased by persons who cannot afford the possibility of the loss of their entire investment.

Volatility of Price of Common Shares

The market price of the Common Shares could be subject to significant fluctuations in response to various factors, including, but not limited to, variations in the operating results of the Company and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company and its subsidiaries, general economic conditions, legislative or regulatory changes, and other events and factors outside of the Company's control.

In addition, the stock markets from time to time have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many companies and that often have been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of the Common Shares. There can be no assurance that the holders or purchasers of the Common Shares will be able to sell their shares at prices equal to or greater than their cost. As well, general economic and political conditions could adversely affect the market price for the Common Shares.

Dividends

The declaration and payment of future dividends will be at the discretion of the Board and may become subject to restrictions under any credit facilities that may be entered into by the Company and may be affected by various other factors, including, but not limited to, the Company's earnings, financial condition and legal or contractual restrictions. There can be no assurance that the Company will be in a position to pay dividends at the same rate (or at all) in the future.

Moreover, as the Company is a holding company for its operating subsidiaries and does not have any significant operations of its own, dividends or other distributions from its subsidiaries are the Company's principal sources of cash to fund its obligations, including the payment of dividends if declared. There are or may be statutory, contractual, tax or other limitations on the ability of the Company's subsidiaries to make distributions to the Company. If the cash the Company receives from its subsidiaries pursuant to such distributions is insufficient, or if the subsidiaries are unable to make such distributions, the Company may be required to raise cash through the incurrence of debt, the issuance of additional equity or the sale of assets to fund its obligations. However, there can be no assurance that the Company would be able to raise cash by any of these means in a timely manner or on terms that are favourable to the Company.

Financial Reporting and Other Public Company Requirements

Upon receiving a final receipt for this Prospectus, the Company will become subject to reporting and other obligations under applicable Canadian securities laws and rules of any stock exchange on which the Offered Shares are then-listed, including National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*. These reporting and other obligations will place significant demands on the Company's management, administrative, operational and accounting resources. In order to meet such requirements, the Company will, among other things, establish systems, implement financial and management controls, reporting systems and procedures and, if necessary, hire qualified accounting and finance staff. However, if the Company is unable to accomplish any such necessary objectives in a timely and effective manner, the Company's ability to comply with its financial reporting obligations and other rules applicable to reporting issuers could be impaired. Moreover, any failure to maintain effective internal controls could cause the Company to fail to satisfy its reporting obligations or result in material misstatements in its financial statements. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially adversely effected which could also cause investors to lose confidence in the Company's reported financial information, which could result in a reduction in the trading price of the Offered Shares.

The Company does not expect that its disclosure controls and procedures and internal controls over financial reporting will prevent all error or fraud. A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within an organization are detected. The inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all.

Forward-Looking Information

The forward-looking statements relating to, among other things, future results, performance, achievements, prospects or opportunities of the Company included in this Prospectus (including, in particular, the information contained in the sections entitled "*Prospectus Summary*", "*Business of the Company*", "*Use of Proceeds*", "*Management's Discussion and Analysis*" and "*Risk Factors*"), are based on opinions, assumptions and estimates made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors the Company believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct. Actual results of the Company in the future may vary significantly from historical and estimated results and those variations may be material. There is no representation by the Company that actual results achieved by the Company in the future will be the same, in whole or in part, as those included in this Prospectus. See "*Forward-Looking Information*".

Significant Shareholder

The Selling Shareholder holds significant voting power in the Company, and its interests may conflict with or differ from the interests of the other shareholders. It is expected that upon completion of the Offering, the Selling Shareholder will hold approximately ● % of the Company's issued and outstanding Common Shares, or approximately ● % on a fully diluted basis. Additionally, Oaktree (and its affiliates, including the Selling Shareholder) may hold or may acquire investments and assets that will compete with the Company. Accordingly, the interests of the Selling Shareholder and Oaktree may not be the same as those of the Company's other shareholders, and conflicts of interest may arise from time to time that may be resolved in a manner detrimental to the Company or the Company's minority shareholders.

As long as the Selling Shareholder continues to directly or indirectly own a significant amount of the voting power of the Company, they will continue to be able to strongly influence or effectively control the business decisions of the Company. Because the Selling Shareholder may have interests that are different from those of the other shareholders of the Company, they may exercise their voting and other rights in a manner that may be adverse to the interests of such other shareholders.

In addition, this concentration of ownership could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquiror from attempting to obtain control of the Company, which could cause the market price of the Common Shares to decline or prevent shareholders from realizing a premium over the market price for their Common Shares.

Future Sales of Common Shares

Sales of a substantial number of Common Shares in the public market, or the perception that large sales could occur could depress the market price of Common Shares.

Subject to certain contractual limitations, and compliance with applicable securities and exchange laws and regulations, the Selling Shareholder and the other shareholders of the Company will be free to sell their Common Shares. However, for a period of 180 days, for the Selling Shareholder together with the Company's executive officers and directors and each of the shareholders of the Company holding greater than 1% of the Common Shares immediately prior to the Closing Date have agreed, subject to certain exceptions, in respect of any securities of the Company held directly or indirectly, not to offer or sell, agree to offer or sell, or enter into agreement to offer or sell any Common Shares or other securities of the Company or securities convertible into exchangeable for, or offered exercisable to acquire any securities of the Company. In addition, the Common Shares reserved for future issuance under the Legacy Plan and the Stock Option Plan will become eligible for sale in the public market in the future, subject to certain legal and contractual limitations. If these additional Common Shares are sold, or if it is perceived that they will be sold, in the public market, the price of the Common Shares could decline substantially.

In the future, the Company may issue additional securities to raise capital. The Company may also acquire interests in other companies by using a combination of cash and Common Shares or just Common Shares. The Company may also issue securities convertible into Common Shares. Any of these events may dilute a shareholder's ownership interest in the Company and have an adverse impact on the price of the Common Shares. In addition, sales of a substantial amount of the Common Shares in the public market, or the perception that these sales may occur, could reduce the market price of Common Shares. This could also impair the Company's ability to raise additional capital through the sale of the Company's securities.

Dilution

The Company may issue additional Common Shares or Preferred Shares in the future, which may dilute a shareholder's holding in the Company. The Company's articles of incorporation permit the issuance of an unlimited number of Common Shares and an unlimited number of Preferred Shares and shareholders will have no pre-emptive rights in connection with such further issuances. Subject to applicable law and the rules of any stock exchange upon which the Common Shares may then be listed, the directors of the Company have the discretion to determine if an issuance of Common Shares or Preferred Shares is warranted, the price at which such issuance is effected and the other terms of issuance. Also, the Company may issue additional Common Shares upon the exercise of options subject to applicable law and the rules of the TSX, the Legacy Plan and the Stock Option Plan, which will result in further dilution to shareholders. See "*Options to Purchase Securities*".

Quarterly Operating Results May Vary

The Company's revenues and results of operations could vary significantly from quarter to quarter due to a variety of factors, many of which are outside of the Company's control. As a result, comparing the Company's results of operations on a period-to-period basis may not be meaningful. Factors that could cause the Company's quarterly results of operations to fluctuate, include, but are not limited to:

- achievement, or failure to achieve, technology or product development milestones needed to allow it to enter identified markets on a cost effective basis;
- changes in underlying rare earth commodity prices;
- disruptions in the production process at any facility where it produces products;
- the timing, size and mix of sales to customers for its products;

- the effects of competitive pricing pressures, including decreases in average selling prices of its products;
- unanticipated expenses associated with changes in governmental regulations and environmental, health and safety standards and enforcement policies;
- departure of executives or other key management employees;
- business interruptions such as earthquakes and other natural disasters;
- its ability to integrate businesses that it may acquire;
- risks associated with litigation in which the Company may be involved from time to time, including intellectual property matters (see “*Risk Factors – Risks Related to Intellectual Property*”);
- risks associated with the international aspects of its business; and
- changes in general economic, industry and market conditions, both domestically and in its foreign markets.

Due to these factors and others, the results of any quarterly or annual period may not meet management’s expectations or the expectations of the Company’s investors and may not be meaningful indications of future performance.

Board Discretion

The Company’s Board can issue, without shareholder approval, Preferred Shares with voting and conversion rights and convertible debt that could adversely affect the voting power of the holders of Common Shares and reduce the likelihood that such holders will receive dividend payments or payments upon liquidation. Such issuance could have the effect of decreasing the market price of the Common Shares. The issuance of Preferred Shares and/or convertible debt or even the ability to issue Preferred Shares and/or convertible debt could also have the effect of delaying, deterring or preventing a change of control or other corporate action.

The Board and management have broad discretion to use cash reserves, and shareholders will be relying on their judgment regarding the application of this cash. The Board and management might not apply the cash in ways that increase the value of your investment. Until the Company uses the cash, it plans to invest it, and these investments may not yield a favorable rate of return. If the Company does not invest or apply the cash in ways that enhance shareholder value, the Company may fail to achieve expected financial results, which could cause its share price to decline.

Analyst Reports

Research analysts may publish their own quarterly projections regarding the Company’s operating results. These projections may vary widely from one another and may not accurately predict the results the Company actually achieves. The trading price of the Common Shares may decline if the Company fails to meet securities research analysts’ projections. Similarly, if one or more of the analysts who covers the Company downgrades the Common Shares or publishes inaccurate or unfavourable research about its business, the Common Share price could decline. If one or more of these analysts ceases coverage of the Company or fails to publish reports regularly, the Common Share price or trading volume could decline.

Risks Related to Business of the Company & Industry

Risks Associated with International Operations

The Company conducts business on an international basis, with factories, offices, and customers in multiple countries, with the attendant difficulties and risks inherent in doing business internationally, including the following:

- burdens to comply with multiple and potentially conflicting foreign laws and regulations, including export requirements, tariffs and other barriers, environmental health and safety requirements and unexpected changes in any of these laws and regulations;
- to the extent cash is held outside of North America, the Company’s repatriation of such cash may be subject to the approval of foreign governments and to the potentially adverse impact of foreign and domestic tax laws as well as changes in foreign exchange or capital controls;

- political and economic instability and disruptions, including the imposition of political and economic sanctions that could adversely affect the supply of Russian-sourced feedstock used by the Company's operations in Estonia or the importation of products from China;
- disadvantages of competing against companies from countries that are not subject to Canadian laws and regulations, including the *Corruption of Foreign Public Officials Act* (Canada) (“**CFPO**”);
- potentially adverse tax consequences due to overlapping or differing tax structures or changes in tax rates; and
- fluctuations in currency exchange rates.

Any of these risks could have an adverse effect on the Company's international operations by reducing the demand for its products, reducing the prices at which it can sell its products or increasing its costs, which could result in an adverse effect on the business, financial position, results of operations or cash flows of the Company or the Company's ability to declare and pay future dividends.

In addition, the Company could be adversely affected by violations of the CFPO and similar worldwide anti-bribery laws. The CFPO and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-Canadian officials for the purpose of obtaining or retaining business. The Company's policies mandate compliance with these anti-bribery laws. The Company operates in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local business customs and practices. There can be no assurance that the Company's internal controls and procedures will protect the Company from the reckless or criminal acts committed by employees, consultants or agents of the Company or otherwise ensure compliance with the CFPO. If the Company is found to be liable for CFPO violations or other applicable anti-bribery laws, the Company could incur criminal or civil penalties or other sanctions, which could have a material adverse effect on the business of the Company.

Additionally, certain customers of the Company have requested that the Company certify whether any “conflict minerals” (as such term is defined in Section 1502 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*) used in some of its products come from the Democratic Republic of the Congo (or an adjoining country). The Silmet facility has received certifications (“**CFS Certification**”) by the EICC that its purchases of tantalum comply with the EICC's Conflict Free Smelter Program. The Company is required to renew its CFS Certification annually and there can be no assurance that such CFS Certification will be renewed in any given year.

The Company's international operations in China and Thailand are subject to a number of special risks including trade barriers, exchange controls and restrictions on currency conversion, political risks and risks of increased duties, taxes, tariffs and governmental royalties, as well as changes in laws, regulations and policies governing operations of foreign-based companies such as embargos. A change in policies by the Chinese or Thai governments could adversely affect the Company's investment in its production facilities by, among other factors, changes in laws or regulations or changes in the interpretation thereof. Despite the activity and progress in developing their legal systems, neither China nor Thailand has a system of laws as comprehensive and predictable as in Canada or the United States. Their legal systems also differ in other ways from the legal systems in Canada and the U.S. which may result in different outcomes than might be expected to occur in Canada or the U.S.

Risks Related to Intellectual Property Protection

Proprietary trade secrets and unpatented know-how are very important to the Company's business. Much of the technology used in the markets in which it competes is unprotected by patents, and the commercial success of the Company will depend primarily on its ability to obtain and maintain trade secret protection and confidentiality for the Company's products and methods. To compete in these markets, the Company relies primarily on a combination of trade secret protection, non-disclosure agreements and trademarks to establish and protect proprietary intellectual property rights, including proprietary production processes that are not patented or are otherwise not subject to robust intellectual property protection.

The Company relies on trade secrets to protect certain aspects of its technology, especially where management does not believe that patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. The

Company's employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose confidential information to competitors, and confidentiality agreements and non-disclosure agreements may not provide an adequate remedy in the event of unauthorized disclosure of confidential or proprietary information. Enforcing a claim that a third party illegally obtained and is using trade secrets is expensive and time consuming, and the outcome is unpredictable, particularly so in certain foreign jurisdictions. Moreover, competitors of the Company may independently develop equivalent knowledge, methods and know-how. Failure to obtain or maintain trade secret protection could adversely affect the Company's competitive business position.

Where appropriate, the Company intends to rely on patented products and applications, such as using rare earths for auto catalysts, water treatment and bonded magnetic powders. Management is evaluating the current patent portfolio in order to focus its efforts on patents and patent applications that provide value to the businesses of the Company. As a result of this evaluation, the Company may abandon certain patents and decide not to pursue certain patent applications.

The Company's ability to obtain additional patents is uncertain and the legal protection afforded by these patents is limited and may not adequately protect its rights or permit it to gain or keep any competitive advantage. It is also costly to apply for and maintain patents in multiple jurisdictions. In addition, the scope and enforceability of patent claims is highly uncertain due to the complex nature of the relevant legal, scientific and factual issues. Changes in either patent laws or interpretations of patent laws may diminish the value of the Company's intellectual property or narrow the scope of the Company's patent protection. Even if patents are issued relating to the Company's products and processes, competitors may challenge the validity of those patents. Patents also will not protect the Company's products and processes if competitors devise ways of making products without infringing such patents.

Intellectual Property Litigation

The Company's intellectual property rights and applications may be challenged, misappropriated, or infringed upon by third parties, or the Company may be unable to maintain, renew or enter into new license agreements with third-party owners of intellectual property on reasonable terms. Identifying unauthorized use of the Company's intellectual property may be difficult, and proceedings to enforce or defend its intellectual property rights could result in substantial costs. The enforcement of intellectual property rights is subject to considerable uncertainty, and patent reform laws, and court decisions interpreting such laws, may create additional uncertainty around the ability to obtain and enforce patent protection for the Company's technologies. These associated challenges facing the Company are often amplified by the international scope of its operations and the differing application of intellectual property rights in various foreign jurisdictions. If the Company seeks to enforce its rights, it may also be subject to claims that its intellectual property rights are invalid or otherwise unenforceable. In addition, intellectual property may be subject to infringement or other unauthorized use. In such case, the Company's ability to protect its intellectual property rights by legal recourse or otherwise may be limited, particularly in countries where laws or enforcement practices are undeveloped or do not recognize or protect intellectual property rights to the same extent as North America. Unauthorized use of intellectual property rights or the Company's inability to preserve existing intellectual property rights could therefore adversely impact the Company's competitive position and results of operations. The loss of the Company's patents could also reduce the value of the related products. In addition, the cost to litigate infringements of the Company's intellectual property, or the cost to defend the Company against intellectual property infringement actions by others, could be substantial.

There is a risk that the Company may infringe, or may be accused of infringing, the proprietary or intellectual property rights of third parties, including rights under patents and pending patent applications belonging to third parties. The Company is currently the subject of a number of patent infringement actions in Europe, the U.K. and China and certain of the Company's products have been found to infringe two expired patents in Germany, as set out in the section entitled "*Legal Proceedings and Regulatory Actions*". Because the patent application process can take several years to complete, and patent applications may remain unpublished for 18 months or more, there may be currently pending applications, including applications of which the Company is currently unaware, that may later result in issued patents that cover the Company's products and processes. In addition, the Company's products and processes may infringe existing patents.

If the Company infringes, or is accused of infringing, the intellectual property rights of third parties, it may increase the Company's costs or prevent the Company from being able to sell its existing products or commercialize new products.

Defending the Company against third-party claims, including litigation in particular, would be costly and time consuming and would divert management's attention from the business of the Company. If third parties are successful in their claims, the Company may have to pay substantial damages or take other actions that are adverse to the business of the Company. As a result of intellectual property infringement claims, or to avoid potential claims, the Company may be:

- prohibited from, or delayed in, selling or licensing some of its products or using some of its processes unless the intellectual property holder licenses the applicable intellectual property to the Company, which it is not required to do;
- required to pay substantial damages or royalties or grant a cross license to the Company's intellectual property to another intellectual property holder;
- required to redesign a product or process so it does not infringe a third party's intellectual property, which may not be possible or could require substantial funds and time and ultimately result in an inferior product or process; or
- subject to adverse rulings from time to time that may have a material adverse effect upon the Company or upon its operations, cash flows, prospects or financial condition.

In addition, the Company could be subject to claims that the Company's employees, consultants, advisors, and agents, or the Company, have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of third parties.

If the Company is unable to resolve claims that may be brought against the Company by third parties related to their intellectual property rights on terms acceptable to the Company, in addition to paying substantial damages and royalties, the Company may lose valuable intellectual property rights and be precluded from offering some of the Company's products or using some of the Company's processes. The Company has been accused of, and in certain cases found to be, infringing certain patents. As is often the case with litigation, the final outcome of such proceedings is uncertain. See "*Legal Proceedings and Regulatory Actions*".

Currency Risk

The Company's financial results are reported in U.S. dollars, which is subject to fluctuations in respect of the currencies of the countries in which the Company operates. Management expects revenues to continue to be earned in a number of different currencies. Accordingly, fluctuations in the exchange rates of world currencies could have a positive or negative effect on reported results on a consolidated basis. Given the constantly changing currency exposures and the substantial volatility of currency exchange rates, the Company cannot predict the effect of exchange rate fluctuations upon the Company's future operating results. There can be no assurance that the Company will not experience losses in the future from currency devaluations or changes in exchange rates, which could have a material adverse effect on the business, revenues, operating results and financial condition of the Company. In the event of a change in the value of the Renminbi relative to the U.S. dollar, there is no assurance, due to competitive pressure, of a corresponding change in selling prices of the Company's products. The Company exports a significant portion of its products produced in China. These exports are invoiced and paid for primarily in U.S. dollars. The Company does not hedge against the risk of revaluation of the Renminbi, the Yen or the Euro.

Expiry of Joint Venture Agreements

The joint venture agreements in respect of ZAMR and JAMR are set to expire in 2023. These agreements may be extended by mutual consent, subject to the receipt of approval from applicable Chinese authorities. While the terms of these agreements, do not permit the Company's Chinese partners to unilaterally terminate such agreements there can be no assurance that the parties will agree to extend the agreements or that they will receive approval from applicable Chinese authorities to do so.

Changes in China's Regulation of the Rare Earths Industry

The Company has operations in China, which is considered to be the world's largest producer and exporter of rare earth products. Nevertheless, citing environmental protection and a need to protect exhaustible natural resources, China has implemented a series of rigorous policies to manage rare earth production and to control exports, through quotas,

licenses and taxes. China continues to institute increasingly stringent environmental law, regulations and standards across its rare earths industry, force industry consolidation, constrict rare earths production and promote stockpiling, which, among other things, creates a general lack of certainty among rare earths customers regarding the reliability of the future supply of REEs. The Chinese Ministry of Industry and Information Technology, along with other relevant government departments, plays an active role in supervising and developing regulations affecting the rare earth industry.

Like other industry participants operating in China, the Company's ability to produce certain of its products is subject to certain production quotas and other aspects of China's rigorous regulation of rare earth production. Historically, the Company has been able to secure sufficient quotas to meet its demands. Nevertheless, there can be no assurance that the Company will be able to continue to secure sufficient quotas or that its operations will not be adversely affected by China's ongoing regulation of rare earths production and exports.

Customer Dependence

Each of the Company's three business segments supply products to a limited number of key customers. While the Company's key customers do not overlap among the Company's key business segments, the loss of a key customer could have a material adverse effect on that segment's future performance and that of the Company.

General Economic Conditions

The business of the Company is subject to general economic conditions. Adverse changes in general economic and market conditions could adversely impact demand for the Company's products, prices, revenue, operating costs, results of financing efforts, and the timing and extent of capital expenditures.

Competition

The Company believes its ability to compete successfully depends upon a number of factors, including, but not limited to: global market presence, production facilities in cost-competitive locations, product quality and performance, access to capital, and the pricing policies of its competitors. Some of the Company's competitors have financial resources, and, in some cases, operational resources and strategic advantages, which are substantially greater than those of the Company.

Uncertainty Regarding Chinese Withholding Tax on Indirect Transfers of Chinese Enterprises by Non-Chinese Residents

The Company and its shareholders face uncertainties with respect to taxes imposed by Chinese authorities on previous and potential future indirect transfers of equity interests in enterprises resident in China or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies, such as the Company's operations in China.

There is uncertainty as to the application of Bulletin 7 (Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-Chinese Resident Enterprises) or previous rules under Circular 698 (Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-Chinese Resident Enterprises). Since Bulletin 7 has only recently been promulgated, it is not clear how it will be implemented. Bulletin 7 (and the resultant taxation) may be determined by the tax authorities to be applicable to the Company's offshore restructuring transactions or sale of the Common Shares or those of the Company's offshore subsidiaries where non-resident enterprises, being the transferors, were involved.

Environmental Liability Exposure

The Company seeks to meet or exceed existing environmental legal requirements in the countries in which the Company operates. Present or future laws and regulations, however, may adversely affect the Company's operations. Future environmental costs may increase due to changing requirements or costs associated with developing, operating, and closing of production sites and the storage, management and disposal of hazardous materials and wastes, including radioactive materials and wastes.

The Company's C&O and Rare Metals business segments are subject to numerous and increasingly stringent international, national, federal, state, provincial and local laws, regulations and permits, including those pertaining to environmental permitting and licensing, air quality, greenhouse gas, water usage, waste water, pollution, waste management and the handling, storage and disposal of hazardous or radioactive materials and wastes. Pursuant to certain environmental laws, regulations and permits, the Company may be subject to claims for toxic torts, natural resource damages and other liabilities, as well as for the investigation and remediation of soil, surface water, groundwater and other environmental media. The Company's failure to comply with these laws and regulations, or changes in such laws and regulations or the interpretation or enforcement thereof, and to obtain or renew any environmental permits, could have a material adverse effect on the Company's business, financial condition and results of operations.

Specifically, the Company is subject both to Chinese national and local environmental protection regulations that currently impose a graduated schedule of fees for the discharge of waste substances, require the payment of fines for discharges exceeding prescribed standards, and provide for the closure of any facility that fails to comply with orders requiring it to cease or remedy certain activities causing environmental damage. The Silmet facility, JAMR and ZAMR produce waste water from their solvent extraction processes.

As part of the recycling of gallium, indium, and rhenium scrap into saleable metal, waste material is generated during the leaching and ion exchange process. The Company has adequate procedures in place to ensure that waste generated from these processes are appropriately contained and disposed of. The Company's Canadian operations are subject to provincial laws, regulations and permits and must periodically submit documentation to validate the waste disposal process throughout the year. The Company's operations may become subject to new or additional federal and local environmental laws, regulations and regulations from time to time which may have an impact on the operations of the Company.

The Company's operations have used and currently use hazardous materials and have generated and currently generate hazardous and NORM. The Silmet facility has a long history of industrial use, including uranium ore and alum shale processing, as a result of which its operations may have impacted the environment. In addition, some of the Company's operations require the management and disposal of radioactive wastes as well as certain permits with respect to the management and disposal of radioactive materials and waste. There can be no assurance that the necessary permits will be obtained or renewed in the future.

These, together with other unforeseen impacts that its operations may have on the environment, as well as human exposure to hazardous or radioactive materials or wastes associated with its operations, could have a material adverse effect on the business, reputation, results of operation and financial condition of the Company.

Supplies of Raw Materials

The Company is exposed to the volatility in the prices of raw materials because it does not generally have long-term supply contracts. The Company also has exposure to certain geo-political risks that could affect the supply of raw materials. The Company's operations in Estonia, for example, currently source most of its feedstock from Russia and China. Economic or political sanctions imposed on Russia or China could adversely impact the Company's access to its supplies of feedstock. In addition, the Chinese government is actively monitoring and regulating rare earth mining operations. In some cases, it is shutting down or curtailing illegal or environmentally damaging mining activities. This could have an adverse impact on rare earth raw material supply. Although the Company believes there is an adequate supply of rare earth feedstock for its processing facilities, there is no assurance that the prices of such rare earth feedstock will not rise dramatically, in which case the increased cost of production may have a material adverse effect on the profit margins of the Company. Such rises in the prices of rare earth feedstock may be offset by increasing the prices of the Company's rare earth related products, however, there is no assurance that the market will bear such price increases and even if the market will bear such increases, the Magnequench segment will have an increased cost of production since rare earths are a primary raw material. In addition, if market prices for the C&O segment's rare earth and zirconium products decline, there is no assurance that raw material prices will decline sufficiently or in tandem to offset the decline in selling prices. The above could have a material effect on the Company's profit margins. The Company is also dependent on being able to secure an adequate supply of gallium, indium, or rhenium bearing scrap at economic prices to maintain and grow its recycling business in the Rare Metals segment.

Fluctuations in Demand for, and Prices of, Rare Earth Products

Because the Company's primary source of revenue is the sale of rare earth-based engineering materials, changes in demand for, and the market price of, rare earth minerals and products could significantly affect the Company's profitability. There can be no assurance that the Company could successfully pass through any increases in the cost of raw materials to the Company's customers. The value and price of the Common Shares and the Company's financial results may be affected by volatility in the prices of rare earth minerals and products. Rare earth minerals and product prices fluctuate and are affected by numerous factors beyond management's control such as interest rates, exchange rates, inflation or deflation, fluctuation in the relative value of the U.S. dollar against foreign currencies on the world market, global and regional supply and demand for rare earth minerals and products, and the political and economic conditions of countries that produce rare earth minerals and products.

Demand for the Company's products is impacted by demand for downstream products incorporating rare earths, including motors used in hybrid and electric vehicles, auto catalysts and other clean technology products, as well as demand in the general aerospace and electronics industries. Lack of growth in these markets may adversely affect the demand for its products, which would have a material adverse effect on the business of the Company and its results of operations.

Extended periods of high commodity prices may create economic dislocations that may be destabilizing to rare earth minerals supply and demand and ultimately to the broader markets. Strong rare earth mineral prices, as well as real or perceived disruptions in the supply of rare earth minerals, also create economic pressure to identify or create alternate technologies that ultimately could depress future long-term demand for rare earth minerals and products, and at the same time may incentivize development of otherwise marginal mining properties.

Product Recalls

The sale of the Company's products involves the risk of product recalls and associated product liability claims. Some of the Company's products are used in the manufacture of end-products (and, in some instances, may be considered by certain of the Company's customers integral to the manufacture of such products). The Company could face significant liability if the Company's products used, for example, in the manufacture of an automotive catalyst were determined to have contributed to a problem that led to a third-party product recall. No assurance can be given that the Company or its customers will not be subject to voluntary or government-ordered product recalls. If one of the Company's or its customers' products is the subject of a recall, the Company may incur significant costs and reputational damage and suffer loss of customers as a result. In addition, if a person brings a product liability claim or suit against one of the Company's customers, this customer may attempt to seek contribution from the Company. While the Company considers the probability of the occurrence of such an event to be low and attempts to mitigate such risk by negotiating liability limits in its customer contracts when possible, a product recall or successful product liability claim or series of claims against the Company in excess of the Company's insurance coverage for which it is not otherwise indemnified could have an adverse effect on the Company's business, financial condition, results of operations or cash flows.

Rapid Technological Change

Markets for the Company's products are competitive. In addition, the applications that use the Company's products are subject to rapid technological change. For instance, auto catalysts represent a significant portion of the C&O segment's business. As many automotive manufacturers increasingly move towards electric-powered vehicles (electric-only and hybrid), the Company's future successes will depend on its ability to adapt to such changes to provide products that achieve market acceptance. As technologies develop, substitutes may be developed for the Company's products which may have an adverse impact on the marketability of the Company's products. There is a risk that the replacement of the Company's products by other products may have a material adverse impact on the Company's sales.

Changes in Tax Laws

The introduction of new tax laws, regulations or rules, or changes to, or differing interpretation of, or application of, existing tax laws, regulations or rules in Canada or any of the countries in which the Company's operations or business is located, could result in an increase in the Company's taxes, or other governmental charges, duties or impositions. In addition, the Company is eligible, from time to time, for certain tax incentives in various jurisdictions

in which it operates, which are subject to change and/or expiry. No assurance can be given that new tax laws, rules or regulations will not be enacted or that existing tax laws will not be changed, interpreted or applied in a manner that could result in the Company's profits being subject to additional taxation or that could otherwise have a material adverse effect on the Company.

Risks of Operations and Insurance

The Company's production and distribution activities are subject to natural hazards and uncertainties including fires, equipment failure, and other risks that can result in personal injuries, loss of life, and property damage. Management believes that the current insurance coverage of the Company's production facilities is in line with industry practice. The Company does not maintain insurance coverage in place for patent infringement, political, or environmental risks because management believes that the premium costs for this additional coverage are in excess of the perceived exposures.

Additional Financing Requirements

The Company may require additional financing in order to make further investments or take advantage of future opportunities. There can be no assurance that the Company will be successful in its efforts to arrange additional financing on terms satisfactory to the Company. If additional financing is raised by the issuance of Common Shares or other forms of convertible securities from treasury, control of the Company may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of growth opportunities.

The Company's Failure to Manage its Growth Effectively Could Harm its Business and Results of Operations

The Company's growth has placed and may continue to place significant demands on its management and its operational and financial infrastructure. As its operations grow in size, scope and complexity and as the Company identifies and pursues new opportunities, the Company may need to increase in scale its infrastructure (financial, management, informational, personnel and otherwise). In addition, the Company will need to continue to build on and effectively deploy its corporate development and marketing assets as well as access sufficient new capital, as may be required, and additional supplies of raw materials. The expansion of its infrastructure will require the Company to commit financial, operational and technical resources in advance of an increase in the volume of business, with no assurance that the volume of business will increase. There can be no assurance the Company will be able to respond adequately or quickly enough to the changing demands that material expansion will impose on management, team members and existing infrastructure, and changes to the Company's operating structure may result in increased costs or inefficiencies that it cannot anticipate. Changes as the Company grows may have a negative impact on the Company's operations, and cost increases resulting from the Company's inability to effectively manage its growth could adversely impact its profitability. In addition, continued growth could also strain the Company's ability to maintain reliable service levels for its clients, develop and approve its operational, financial and management controls, enhance its reporting systems and procedures and recruit, train and retain highly-skilled personnel. The Company places great importance on its culture, which the Company believes has been an important contributor to its success. As the Company grows, it may have difficulty maintaining its culture or adapting it sufficiently to meet the changing needs of its operations. Among other important factors, the Company's culture depends on its ability to attract, retain and motivate employees. The Company's failure to foster and maintain its corporate culture could also harm its business and results of operations. Failure to effectively manage growth could result in difficulty or delays in servicing clients, declines in quality or client satisfaction, increases in costs, difficulties in introducing new products or applications or other operational difficulties, and any of these difficulties could adversely impact the Company's business performance and results of operations.

Potential for Incurring Unexpected Costs or Liabilities as a Result of Acquisitions

The Company may in the future pursue strategic acquisitions that it believes would expand its product offerings and capabilities or complement its business. While management has considerable experience in making such acquisitions and integrating them, any such acquisition that the Company makes will be accompanied by the risks commonly encountered in acquisitions of businesses. The process of integrating acquired businesses, products or technologies may create unforeseen operating difficulties and expenditures. The Company may have difficulty integrating and assimilating the operations and personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise. The Company may incur costs necessary to reorganize, expand or otherwise modify existing operations to meet future production needs, and may also

incur closure and carrying costs for portions of properties, for which it has no operational uses. The Company may also have difficulty maintaining uniform standards, policies and controls across the organization. The process of integrating acquired businesses may also result in a diversion of management's attention and cause an interruption of, or loss of momentum in, its activities.

Additionally, any acquisition that the Company makes may result in the assumption of material liabilities. Businesses and properties the Company acquires may be in an unexpected condition and may subject the Company to increased costs and liabilities, including environmental liabilities. The costs and liabilities associated with known risks may be greater than expected, and the Company may assume unknown liabilities, either of which could have a material adverse effect on its business, financial condition and results of operations. Foreign acquisitions involve risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries. As a result of these risks, the anticipated benefits of these acquisitions may not be fully realized, if at all, and the acquisitions could have a material adverse effect on the business, financial condition and results of operations of the Company.

Dependence on Good Relations with Employees

The Company's success depends on the skills and abilities of its employees. There is keen competition for engineers and others with industry expertise. The Company's ability to hire and retain such persons is key to its operations. A shortage of skilled labour could impact on its planned internal growth or require it to use less skilled employees which could adversely affect the Company's ability to carry out its work. Further, relations with employees may be affected by changes in the scheme of labour relations that may be introduced by relevant government authorities in the jurisdictions in which the Company conducts business. Changes in such legislation or otherwise in relationships with the Company's employees may result in strikes, lockouts or other work stoppages, any of which could have a material adverse effect on the operations, results of operations and financial condition of the Company. As of June 30, 2017, 114 employees at the Silmet facilities were unionized employees. A work stoppage at the Silmet facilities could similarly have a material adverse effect on the operations, results of operations and financial condition of the Company.

Reliance on Key Personnel

The Company depends on the services of its senior management team and other key personnel. The loss of the services of any member of senior management or a key employee could have an adverse effect on the Company's business. The Company may not be able to locate, attract or employ on acceptable terms qualified replacements for senior management or other key employees if their services are no longer available.

Information Technology and Cybersecurity

The Company is dependent upon information technology systems in the conduct of its operations. The Company's information technology systems are subject to disruption, damage or failure from a variety of sources, including, without limitation, fire, power loss, telecommunications failures, computer viruses and disabling devices, security breaches, cyber-attacks, natural disasters and defects in design.

Exposure of the Company's information technology systems to external threats poses a risk to the security of these systems. Such cyber-security threats include denial or services attacks, unauthorized access to information technology systems due to hacking, viruses and other causes that can result in service disruptions, system failures and disclosure, deliberate or inadvertent, of confidential business information.

Damage, disruption, or failure of one or more information technology systems may result in interruptions to the Company's operations. Systems failures could result in reputational damage to the business and cause the Company to incur significant costs and third party liability. Various measures have been implemented to manage the risks related to the Company's information technology systems, but the business, financial position or results of operations of the Company could be adversely impacted by such interruptions.

The Company could also be adversely affected by system or network disruptions if new or upgraded information technology systems are defective, not installed properly or not properly integrated into its operations.

PROMOTER

During the two years immediately preceding the date of this document, the promoter of the Company has been and is as follows:

Name of Promoter	Number of Common Shares after giving effect to the Arrangement but prior to the completion of the Offering	Percentage	Number of Common Shares after giving effect to the Arrangement and the Offering	Percentage
OCM Neo Holdings (Cayman), L.P.	37,996,100	95.3%	●	●

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Legal Proceedings

From time to time, Neo and its subsidiaries are subject to litigation claims arising in the ordinary course of business, most of which involve alleged violations of the intellectual property rights of others. Neo manufactures and sells many products that use scientific formulations and processes, and its competitors may from time to time allege that they hold a patent on such formulations or processes that Neo has infringed. Neo generally believes that it has meritorious defenses to the actions that have been brought against it and vigorously pursues the defense of each such action, including but not limited to initiating legal proceedings to revoke or invalidate the patents Neo is alleged to have infringed. However, litigation outcomes are inherently unpredictable and may be even harder to predict for patent litigation since patents are issued separately by each country or applicable jurisdiction with different standards for infringement or invalidation, as well as differing levels of damages, including as a result of the number of customers and level of activity of Neo in a given country or jurisdiction.

If many or most of the proceedings initiated against Neo in respect of the patents held by others described below are finally determined in a manner adverse to Neo, there can be no assurance that such determinations would not have a material adverse effect upon the Company or upon its operations, cash flows, prospects or financial condition, and in some countries (or jurisdictions) listed below, management expects that an injunction or other remedy imposed for infringement will be materially adverse to the Company. It is not possible at this time to predict with any degree of certainty the impact upon Neo's operations in the event of such final adverse determinations. If injunctions were granted against it, Neo would be prohibited from manufacturing and distributing certain products in those jurisdictions subject to those injunctive orders. Neo could, in such event, re-establish its manufacturing capability for such products in jurisdictions not prohibited by any such orders, and thus would expect to encounter interruptions in its manufacturing of such products and in its ability to distribute such products to customers in jurisdictions not subject to such orders. In the event of final adverse determinations, Neo expects to take all available actions to mitigate the impacts of such rulings, including but not limited to continuing to pursue invalidation of the applicable patent (if not already decided) appealing the adverse rulings, obtaining licensing rights and finding new customer outlets. The geographically diverse nature of Neo's operations and that of certain of its customers potentially provides Neo with a measure of flexibility to manufacture the same products in certain other jurisdictions and continue to supply certain of its customers with the same products in certain other jurisdictions. Neo also has the ability to work with customers to develop new products that may have a lower risk of potentially falling within the scope of existing patent claims.

Where appropriate, accruals are made in accordance with accounting standards for contingences to provide for matters that are probable of resulting in an estimated loss. Based upon the status of the cases described below, management's assessments of the likelihood of damages, and the advice of counsel, Neo has made such accruals, as of June 30, 2017, for two lawsuits in Germany, described in greater detail below, for which it was found to have infringed patents that are now expired. Other than these two lawsuits in Germany, Neo considers all of the other outstanding litigation described below as currently being too uncertain to result in accruals. Several of these actions are at a preliminary stage and have not gone to trial.

As mentioned above the laws concerning patents differ from country to country. Damages for patent infringement in Europe and China may include lost profits or a reasonable royalty, but enhanced damages for wilful infringement are generally not available, unlike the case in the United States.

The following summary provides details of certain legal proceedings to which Neo Cayman and its subsidiaries is or was a party to, or to which its property is or was the subject of since January 1, 2016.

As noted below, many of the claims of alleged infringement are made by the same parties, initiated in different jurisdictions involving the same or similar patents, some of which have expired.

European Patent #EP 1527018 B1 Litigation

On August 17, 2016, Molycorp Chemicals & Oxides (Europe) Ltd. (“**Molycorp C&O Europe**”) (now Neo C&O Europe) initiated opposition proceedings before the European Patent Office requesting that it revoke European patent #EP 1527018 B1 pertaining to rare earth mixed oxides for use in automotive catalysts (“**018**”) previously granted to Rhodia Opérations SAS (“**Rhodia Operations**”) in November 2015 on the basis of its invalidity. To date, no hearing has been scheduled and no decision has been issued. Except for certain evidentiary measures, Rhodia Operations has to date not initiated proceedings in Europe against the Company or any of its subsidiaries alleging infringement of the applicable patent.

On December 20, 2016, Rhodia Operations and Daiichi Kigenso Kagaku Kogyo Co, Ltd. (“**DKKK**”) without notice applied for an *ex parte* evidentiary seizure in the District Court of Amsterdam against Neo C&O Europe, Molycorp Minerals Canada ULC (“**Molycorp Minerals**”) (now Neo ULC), ZAMR and Neele-Vat Amsterdam B.V. (“**Neele-Vat**”), based on alleged infringement of 018, European patent #1894620 B1 pertaining to rare earth mixed oxides for use in automotive catalysts (“**620**”) granted to DKKK in September 2016 and European patent #0955267 pertaining to rare earth mixed oxides for use in automotive catalysts (“**267**”) granted to Solvay Special Chem Japan, Ltd. The court granted the request on an *ex parte* basis on January 17, 2017 and allowed an evidentiary seizure for use in infringement proceedings in Europe of 018, 620 and 267 and for determining potential tort liability. The parties have reached an agreement concerning the disclosure of the seized material and the use thereof by Rhodia Operations in potential infringement proceedings.

Chinese Patent #Z 03817110.4 Litigation

On August 21, 2015, Rhodia Operations and DKKK initiated a patent infringement action in China against ZAMR before the Shandong Higher People’s Court, alleging infringement of Chinese patent #ZL03817110.4 pertaining to rare earth mixed oxides for use in automotive catalysts (“**110**”). Both 110 and 018 contain the same claims. On September 29, 2016, the Supreme People’s Court ruled that the case should be sent to the Zibo Intermediate People’s Court for adjudication. In response to the infringement action, on December 15, 2015, ZAMR initiated an action before the Chinese Patent Re-examination Board requesting that it invalidate 110. A hearing took place on May 17, 2016, and a decision is still pending. On March 28, 2017, Rhodia Operations and DKKK refiled the case before the Zibo Intermediate People’s Court. Rhodia Operations and DKKK are seeking an injunction, damages of RMB20 million (approximately \$3 million) and legal costs. Two preliminary hearings were held in 2017 and further substantive hearings are pending.

European Patent #1894620 B1 Patent Litigation

On June 21, 2017, Neo C&O Europe initiated opposition proceedings before the European Patent Office, requesting that it revoke 620 on the basis of its invalidity. A hearing date has not yet been set and thus, no decision has been issued. Except for certain evidentiary measures, Rhodia Operations and/or DKKK have not yet initiated proceedings in Europe against the Company and/or its subsidiaries, alleging infringement of 620. Unless invalidated, 620 expires on August 21, 2027.

On December 20, 2016, Rhodia Operations and DKKK without notice applied for an *ex parte* evidentiary seizure in the District Court of Amsterdam against Neo C&O Europe, Molycorp Minerals (now, Neo ULC), ZAMR and Neele-Vat, based on alleged infringement of 620, 018 and 267. The District Court of Amsterdam granted the request on an *ex parte* basis on January 17, 2017 and allowed an evidentiary seizure for use in infringement proceedings in Europe of 620, 018 and 267 and determining potential tort liability. The parties have reached an agreement concerning the disclosure of the seized material and the use thereof by Rhodia Operations in infringement proceedings.

Chinese Patent #ZL 200710146613.6 Litigation

On August 21, 2015, Rhodia Operations and DKKK initiated a patent infringement action in China against ZAMR before the Shandong Higher People's Court, alleging infringement of Chinese patent #ZL 200710146613.6 pertaining to rare earth mixed oxides for use in automotive catalysts ("613"). Both 613 and 620 contain the same claims. On September 29, 2016, the court ruled that the case should be sent to the Zibo Intermediate People's Court for adjudication. In response to the infringement action, on December 15, 2015, ZAMR initiated an action before the Chinese Patent Re-examination Board requesting that the court invalidate 613. A hearing took place on May 16, 2016, and a decision is still pending. On March 28, 2017, Rhodia Operations and DKKK refiled the case before the Zibo Intermediate People's Court. Rhodia Operations and DKKK are seeking an injunction, damages of RMB15 million (approximately \$2.3 million) and legal costs. Two preliminary hearings were held in 2017, and further substantive hearings are pending.

European Patent #0735984 B1 Litigation

On July 31, 2014, Rhodia Chimie S.A.S ("**Rhodia Chimie**") and Rhodia Operations (collectively, "**Rhodia**") initiated an action before the Regional Court of Düsseldorf, Germany i.a. against Molycorp C&O Europe (now, Neo C&O Europe), alleging infringement of European patent #0735984 B1 pertaining to rare earth mixed oxides for use in automotive catalysts ("**984**"). 984 expired on December 20, 2014. The Regional Court of Düsseldorf found that 984 had been infringed and ordered Neo C&O Europe to render account and to recall infringing products from the distribution chain. It also determined that Neo C&O is obliged to pay damages. Rhodia has declared that until there is a final decision of the German Federal Supreme Court on the validity of 984, it will only enforce the patent in the limited scope as upheld by the German Federal Patent Court in first instance. On June 13, 2017 Rhodia asked Neo C&O Ltd. for a damages payment of 5,156,503 EUR (approximately \$6.1 million). No further steps have yet been taken in this regard and the precise amount of damages has not been judicially determined, for which separate legal proceedings could be initiated. Neo C&O Europe appealed the first instance decision of the Regional Court of Düsseldorf to the Higher Regional Court of Düsseldorf, Germany on April 1, 2016. A hearing date has not yet been set and thus, no decision has been issued. On March 16, 2016, Molycorp C&O Europe (now Neo C&O Europe) initiated nullity proceedings before the German Federal Patent Court seeking to invalidate certain claims of the German part of 984. On October 11, 2016, the German Federal Patent Court maintained the German part of 984, but only in restricted form. On April 4, 2017, both Rhodia and Neo C&O Europe appealed the decision of the Federal Patent Court to the Federal Supreme Court. A hearing date has not been set and thus, no decision has yet been issued.

Chinese Patent #ZL 94194552.9 Litigation

On August 21, 2015, Rhodia Operations and DKKK initiated a patent infringement action in China against ZAMR before the Shandong Higher People's Court, alleging infringement of Chinese patent #ZL 94194552.9 pertaining to rare earth mixed oxides for use in automotive catalysts ("**552**"). Both 984 and 552 contain the same claims and both expired on December 20, 2014. On September 29, 2016, the Supreme People's Court ruled that the case should be sent to the Zibo Intermediate People's Court for adjudication. In response to the infringement action, on December 15, 2015, ZAMR initiated an action before the Chinese Patent Re-examination Board requesting that the Board invalidate 552. A hearing and a decision are still pending. On March 28, 2017, Rhodia Operations and DKKK refiled the case before the Zibo Intermediate People's Court, claiming damages of RMB5 million (approximately \$760,000) and legal costs. Two preliminary hearings were held in 2017 and further substantive hearings are pending. In addition, in respect of an invalidation action filed by Tianjin Hysci Specialty Materials Co., Ltd., the Chinese Patent Re-examination Board issued a decision on March 23, 2016, finding that a portion of the claims of 552 were invalid. Rhodia Operations has appealed this decision before the Beijing IP Court and, to the Company's knowledge, the hearing is still pending.

European Patent #0863846 B1 Litigation

On July 31, 2014, Rhodia initiated an action in the Regional Court of Düsseldorf, Germany i.a. against Molycorp C&O Europe (now, Neo C&O Europe) alleging infringement of European patent #0863846 B1 pertaining to rare earth mixed oxides for use in automotive catalysts ("**846**"). 846 expired on June 28, 2016. On February 2, 2016 the court found that 846 had been infringed. However, the Court stayed the proceedings until there is a first instance decision of the German Federal Patent Court about the validity of 846. On March 3, 2017, the Regional Court of Düsseldorf confirmed that it holds 846 to be infringed and it did not order a further stay of the proceedings until a final decision on

the validity of 846 by the German Federal Supreme Court on appeal. It thus ordered Neo C&O Europe to render account and to recall infringing products from the distribution chain. It also determined that Neo C&O Europe is obliged to pay damages. The precise amount of damages has not been judicially determined, for which separate legal proceedings could be initiated. On August 15, 2017, Neo C&O Europe appealed the first instance decision of the Regional Court of Düsseldorf to the Higher Regional Court of Düsseldorf. A date for an oral hearing has not yet been set and no decision has been rendered. On March 16, 2015, Molycorp C&O Europe (now, Neo C&O Europe) initiated nullity proceedings before the German Federal Patent Court requesting that the Court invalidate certain claims of the German part of 846. The German Federal Patent Court on October 25, 2016 maintained the German part of 984, but in restricted form. In April 2017, both Rhodia and Neo C&O Europe appealed the decision of the German Federal Patent Court to the German Federal Supreme Court. A hearing date has not been set and no decision has yet been issued.

Chinese Patent #ZL 96196505.3 Litigation

On August 21, 2015, Rhodia Operations and DKKK initiated a patent infringement action in China against ZAMR before the Shandong Higher People's Court, alleging infringement of Chinese patent #ZL 96196505.3 pertaining to rare earth mixed oxides for use in automotive catalysts ("505"). 505 expired on June 28, 2016. (Both 846 and 505 contain the same claims.) On September 29, 2016, following an application by ZAMR, the Supreme People's Court ruled that the case should be sent to the Zibo Intermediate People's Court for adjudication. The Chinese Patent Re-examination Board, on October 20, 2016, upheld the validity of certain claims of 505. On March 28, 2017, Rhodia Operations and DKKK refiled their infringement claim before Zibo Intermediate People's Court and claimed damages of RMB45 million (approximately \$6.8 million) and legal costs.

Chinese Patent #ZL 97195463.1 Litigation

On August 21, 2015, Rhodia Operations and DKKK initiated a patent infringement action in China against ZAMR before the Shandong Higher People's Court, alleging infringement of Chinese patent #ZL 97195463.1 pertaining to rare earth mixed oxides for use in automotive catalysts ("463"). 463 expired on May 9, 2017. On September 29, 2016, following an application by ZAMR, the Supreme People's Court ruled that the case should be sent to the Zibo Intermediate People's Court for adjudication. In response to the infringement action, on December 15, 2015, ZAMR initiated an action before the Chinese Patent Re-examination Board requesting that it invalidate 463. A hearing took place on May 18, 2016, but a decision has not yet been rendered. On March 28, 2017, Rhodia Operations and DKKK refiled the case before the Zibo Intermediate People's Court and claimed damages of RMB5 million (approximately \$760,000) and legal costs. Two preliminary hearings were held in 2017 and further substantive hearings are pending.

No action has been taken in Europe against the Company and its subsidiaries based on European patent #0906244 B1 pertaining to rare earth mixed oxides for use in automotive catalysts ("244"). 244 contains the same claimed subject matter as 463 and also expired on May 9, 2017.

European and UK Patents #1444036 B1 Litigation

On October 26, 2015, Magnesium Elektron Ltd. ("MEL") initiated an action in the High Court of Justice of England and Wales, Chancery Division, Patents Court against Molycorp C&O Europe (now, Neo C&O Europe) and ZAMR, alleging infringement of European and United Kingdom patents #1444036 B1 pertaining to rare earth mixed oxides for use in automotive catalysts ("036"). Neo C&O Europe and ZAMR each filed a defence and counterclaim and are seeking to invalidate 036. In the action, MEL is seeking: (i) an injunction to restrain Neo C&O Europe and ZAMR from infringing 036; (ii) an order for delivery up or 'destruction upon oath' of all material in the possession, power, custody or control of Neo C&O Europe and ZAMR, the keeping, disposal or use of which would be a breach of the injunction; and (iii) an inquiry as to damages or account of profits for infringement of 036. The trial is currently scheduled to take place in March, 2018.

No action has been taken in Germany against the Company and/or its subsidiaries based on 036.

European and UK Patents #1435338 B1 Litigation

On April 13, 2016, Anan Kasei Co., Ltd. ("AKC") and Rhodia Operations initiated action in the High Court of Justice of England and Wales, Chancery Division, Patents Court against Molycorp C&O Europe (now, Neo C&O

Europe) alleging infringement of European and United Kingdom patents #1435338 B1 pertaining to cerium oxides for use in automotive catalysts (“338”). Neo C&O Europe has filed a defence and counterclaim and is seeking to invalidate 338. In the action, the plaintiffs are seeking: (i) an injunction to restrain Neo C&O Europe from infringing 338; (ii) an order for delivery up or destruction of all products which would infringe 338; and (iii) an inquiry as to damages or account of profits for infringement of 338. The trial is currently scheduled to take place in January 2018.

On July 11, 2017, the UK Border Force detained a shipment of cerium oxide held by Neo C&O Europe on the basis that the cerium oxide comprising the shipment was suspected of infringing an intellectual property right of AKC. On July 24, 2017, the UK Border Force detained another shipment of cerium oxide held by Neo C&O Europe on the same basis. In relation to both shipments, Neo C&O Europe has informed the UK Border Force that it believes the goods in question do not infringe an intellectual property right and that it does not consent to their abandonment for destruction. If Neo C&O Europe and AKC are not able to reach an agreement regarding release of the goods then this issue may form part of the trial between the parties scheduled to take place in January 2018.

On September 15, 2016, Rhodia Operations initiated an action in the Regional Court of Mannheim against Neo C&O (Europe) and two of its employees, alleging infringement of 338. Neo C&O Europe has filed its defence, requesting the complaint be dismissed or at least that the proceedings are stayed until there is a final decision on the validity of 338. In its complaint, Rhodia Operations is seeking that the defendants cease and desist from offering, distributing using or importing or possessing products that infringe certain claims of 338 and to render account. Also, Rhodia Operations has called for the destruction of infringing products that are in Neo C&O Europe’s possession and that Neo C&O Europe recalls infringing products from the distribution chain. Furthermore, Rhodia Operations has asked the court to determine that the defendants pay damages. The trial is currently scheduled to take place on November 21, 2017. No decision has yet been issued.

On June 21, 2016, Neo C&O Europe initiated nullity proceedings before the German Federal Patent Court, asking for the revocation of 338. A hearing is scheduled for January 15, 2019.

Following an *ex parte* application brought without notice by Rhodia Operations on January 17, 2017, the District Court of Amsterdam allowed an evidentiary seizure against Neo C&O Europe, Molycorp Minerals (now, Neo ULC), ZAMR and Neele-Vat, based on alleged infringement of 338 and potential tort liability. The parties have since reached an agreement concerning the disclosure of the seized material and the use thereof by Rhodia Operations in infringement proceedings.

European Patent #0605274 B1 Litigation

On July 31, 2014, Rhodia initiated action in the Regional Court of Düsseldorf against Molycorp C&O Europe (now, Neo C&O Europe) alleging infringement of European patent #0605274 B1 pertaining to rare earth mixed oxides for use in automotive catalysts (“274”). 274 expired on December 15, 2013. On March 3, 2016, the Court found that 274 had been infringed, and ordered Neo C&O Europe to render account, to recall infringing products from the distribution chain and determined that Neo C&O Europe is obliged to pay damages. The precise amount of damages has not been judicially determined. On April 1, 2016, Neo C&O Europe filed an appeal with the Higher Regional Court of Düsseldorf. Following the revocation of 274 by the German Federal Patent Court, Neo C&O Europe requested the Higher Regional Court of Düsseldorf to order that enforcement by Rhodia of the lower court judgement be stayed. On October 4, 2016, the Higher Regional Court of Düsseldorf met this request. Also, the appeal proceedings have been stayed by the Higher Regional Court of Düsseldorf with the consent of both parties, pending a final decision on the patent invalidation proceeding of 274 by the German Federal Court of Justice. On March 16, 2015, Molycorp C&O Europe (now, Neo C&O Europe) commenced nullity proceedings in the German Federal Patent Court to invalidate certain claims of the German part of 274. On September 27, 2016, the German Federal Patent Court invalidated those claims. On March 21, 2017, Rhodia Chimie appealed the decision of the Federal Patent Court to the German Federal Supreme Court. Neo C&O Europe replied on September 25, 2017. A hearing date has not yet been set and a decision has not yet been found.

European Patent #2007682 Litigation

On February 6, 2017, Neo C&O Europe initiated opposition proceedings before the European Patent Office requesting it revoke European patent #2007682 granted to Rhodia Operations pertaining to rare earth mixed oxides for

use in automotive catalysts (“682”) on the basis of its invalidity. A hearing date has not yet been set and thus, no decision has been issued.

European Patent #0955267 Litigation

On December 20, 2016 Rhodia Operations and DKKK without notice applied for an *ex parte* evidentiary seizure in the District Court of Amsterdam against Neo C&O Europe, Molycorp Minerals (now, Neo ULC), ZAMR and Neele-Vat, based on alleged infringement of the patents pertaining to 267, 018 and 620. The District Court of Amsterdam granted the request on an *ex parte* basis on January 17, 2017 and allowed an evidentiary seizure for use in infringement proceedings in Europe of these patents and determining potential tort liability. The parties have reached an agreement concerning the disclosure of the seized material and the use thereof by Rhodia Operations in infringement proceedings.

On June 8, 2017, Rhodia Operations sought to include in 267 the complaint in the infringement proceedings regarding 846 before the Regional Court of Düsseldorf. In the oral hearing regarding infringement of 846, the Regional Court of Düsseldorf decided to separate the infringement proceedings regarding 267. A hearing has been scheduled for October 25, 2018. Neo C&O Europe is required to reply by December 18, 2017. No nullity proceedings against the German part of this patent have been initiated so far. 267 expires on December 24, 2017.

European Patent #1603667 Litigation

On April 13, 2017, Neo C&O Europe initiated opposition proceedings before the European Patent Office requesting it revoke European patent #1603667 granted to Rhodia Operations pertaining to rare earth mixed oxides for use in automotive catalysts (“667”) on the basis of its invalidity. A hearing date has not yet been set and thus, no decision has been issued.

Regulatory Actions

There have been no penalties or sanctions imposed against the Company by a court relating to provincial and territorial securities legislation or by a securities regulatory authority since incorporation.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following summary describes the principal Canadian federal income tax considerations generally applicable to a purchaser who acquires Offered Shares pursuant to the Offering and who, for purposes of the Tax Act and at all relevant times: (i) holds such Offered Shares as capital property; (ii) is not affiliated with the Company, the Underwriters or the Selling Shareholder from whom the purchaser acquires Offered Shares; and (iii) deals with the Company, the Underwriters and the Selling Shareholder from whom the purchaser acquires Offered Shares at arm’s length (a “**Holder**”).

This summary is not applicable to a Holder: (a) that is a “financial institution”, as defined for the purposes of the “mark-to-market” rules contained in the Tax Act, or a “specified financial institution”, as defined in the Tax Act; (b) an interest in which is a “tax shelter investment”, as defined in the Tax Act; (c) whose “functional currency” for the purposes of the Tax Act is the currency of a country other than Canada; or (d) who has entered into or will enter into, with respect to their Offered Shares, a “derivative forward agreement” or a “synthetic disposition arrangement” as those terms are defined in the Tax Act.

Offered Shares will generally be considered to be capital property to a Holder unless the Holder holds such shares in the course of carrying on a business of buying and selling such securities or the Holder acquired such shares in a transaction or transactions considered to be an adventure or concern in the nature of trade.

The summary does not address the possible application of the “foreign affiliate dumping” rules that may be applicable to a Holder that is a Company resident in Canada (for purposes of the Tax Act) that is, or that becomes as part of a transaction or event or series of transactions or events that includes the acquisition of the Offered Shares, controlled by a non-resident corporation for purposes of the rules in section 212.3 of the Tax Act. Any such Holder should consult its own tax advisor with respect to the consequences of acquiring the Offered Shares.

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the “**Regulations**”) and an understanding of the published administrative policies and assessing practices of the Canada Revenue Agency (“**CRA**”) made publicly available prior to the date hereof. This summary also takes into account all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the “**Tax Proposals**”) and assumes that all Tax Proposals will be enacted in the form proposed. However, there can be no assurance that the Tax Proposals will be enacted in their current form, or at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except for the Tax Proposals, does not take into account or anticipate any changes in law or administrative policies and assessing practices, whether by legislative, regulatory, administrative or judicial decision or action, nor does it take into account or consider other federal or any provincial, territorial or foreign tax considerations, which may differ significantly from the Canadian federal income tax considerations described herein. On July 18, 2017, the Minister of Finance (Canada) released a consultation paper that included an announcement of the government’s intention to amend the Tax Act to increase the amount of tax applicable to passive investment income earned through a private corporation. No specific amendments to the Tax Act were proposed in connection with this announcement. Holders that are private Canadian corporations should consult their own tax advisors.

This summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser of Offered Shares. This summary is not exhaustive of all Canadian federal income tax considerations. Consequently, purchasers are urged to consult their own tax advisors for advice regarding the income tax consequences to them of the acquisition, holding and disposition of the Offered Shares, having regard to their own particular circumstances, and any other consequences to them of such transactions under Canadian federal, provincial, local and foreign tax laws.

Holders Resident in Canada

The following section of the summary is generally applicable to a Holder who, for purposes of the Tax Act, is or is deemed to be a resident of Canada at all relevant times (a “**Resident Holder**”).

Certain Resident Holders whose Offered Shares might not otherwise constitute capital property may be eligible to make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have their Offered Shares and every other “Canadian security” (as defined in the Tax Act) owned by such Resident Holder in the taxation year in which the election is made and in all subsequent taxation years, be deemed to be capital property. Resident Holders contemplating such an election should first consult their own tax advisors as to the availability and effect of making such election.

Dividends on the Offered Shares

Dividends received or deemed to be received on the Offered Shares will be included in computing a Resident Holder’s income. In the case of an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit rules normally applicable in respect of “taxable dividends” received from “taxable Canadian corporations” (as defined in the Tax Act). An enhanced dividend tax credit will be available to individuals in respect of “eligible dividends” designated by the Company to the Resident Holder in accordance with the provisions of the Tax Act.

Dividends received or deemed to be received by a Resident Holder that is a corporation on the Offered Shares must be included in computing its income but generally will be deductible in computing its taxable income. A Resident Holder that is a “private corporation” or a “subject corporation” (as such terms are defined in the Tax Act), may be liable to pay a refundable tax under Part IV of the Tax Act on dividends received or deemed to be received on the Offered Shares to the extent such dividends are deductible in computing the Resident Holder taxable income.

In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received or deemed to be received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors having regard to their own circumstances.

Disposition of the Offered Shares

A disposition or deemed disposition of an Offered Share by a Resident Holder will generally result in the Resident Holder realizing a capital gain (or capital loss) equal to the amount by which the proceeds of disposition of the Offered

Share, net of any reasonable costs of disposition, exceed (or are less than) the Resident Holder's adjusted cost base thereof immediately before the disposition. Such capital gain (or capital loss) will be subject to the tax treatment described under "*Capital Gains and Capital Losses*". A Resident Holder's cost of an Offered Share at any particular time will be averaged with the adjusted cost base to the Resident Holder of all other Offered Shares held by the Resident Holder at that time.

Capital Gains and Capital Losses

Generally, a Resident Holder is required to include in computing its income for a taxation year one-half of the amount of any capital gain (a "taxable capital gain") realized in such taxation year. Subject to and in accordance with the provisions of the Tax Act, a Resident Holder is required to deduct one-half of the amount of any capital loss (an "allowable capital loss") realized in a taxation year from taxable capital gains realized by the Resident Holder in the year. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years to the extent and in the circumstances prescribed in the Tax Act.

The amount of any capital loss realized on the disposition of an Offered Share by a Resident Holder that is a corporation may, to the extent and under the circumstances specified by the Tax Act, be reduced by the amount of any dividends received or deemed to have been received by the corporation on such Offered Share (or on a share for which such Share is substituted or exchanged). Similar rules may apply where Shares are owned by a partnership or trust of which a corporation, trust or partnership is a member or beneficiary. Resident Holders to whom these rules may be relevant are urged to consult their own tax advisors.

Alternative Minimum Tax

Capital gains and taxable dividends realized by individuals, including certain trusts, may give rise to a liability for alternative minimum tax under the Tax Act.

Additional Refundable Tax

A Resident Holder that is throughout the year a "Canadian-controlled private corporation" as defined in the Tax Act may be liable to pay an additional refundable tax of 10 $\frac{2}{3}$ % on certain investment income, including taxable capital gains realized and dividends received or deemed to be received that are not deductible in computing taxable income.

Shareholders Not Resident in Canada

The following section of the summary is generally applicable to a holder of Offered Shares who, (i) for the purposes of the Tax Act and at all relevant times, is not, and is not deemed to be, a resident in Canada, (ii) does not, and is not deemed to, use or hold the Offered Shares in the course of, carrying on a business in Canada, and (iii) is not an insurer who carries on an insurance business or is deemed to carry on an insurance business in Canada and elsewhere (in this section, a "**Non-Resident Holder**").

Dividends on the Offered Shares

Where a Non-Resident Holder receives or is deemed to receive a dividend on the Offered Shares, the amount thereof will be subject to Canadian non-resident withholding tax at the rate of 25% of the gross amount of the dividend or such lower rate as may apply under the provisions of an applicable income tax treaty or convention.

Disposition of the Shares

A Non-Resident Holder who disposes of Offered Shares will not be subject to tax under the Tax Act on the disposition unless the Offered Shares constitute "taxable Canadian property" of the Non-Resident Holder and the Non-Resident Holder is not entitled to relief under an applicable income tax treaty or convention.

Generally, Offered Shares will not be "taxable Canadian property" of a Non-Resident Holder at a particular time provided that such shares are listed on a "designated stock exchange" (which currently includes the TSX) at that time,

unless: (i) at any time during the sixty-month period immediately preceding the disposition of such Offered Shares by such Non-Resident Holder, (A) the Non-Resident Holder, persons not dealing at arm's length with such Non-Resident Holder, partnerships in which the Non-Resident Holder or persons not dealing at arm's length with the Non-Resident Holder hold a membership interest directly or indirectly through one or more partnerships or the Non-Resident Holder together with all such persons and partnerships, owned 25% or more of the issued shares of any class or series of the capital stock of the Company, and (B) more than 50% of the fair market value of the Offered Shares was derived, directly or indirectly, from one or any combination of real or immovable property situated in Canada, "Canadian resource properties" as defined in the Tax Act, "timber resource properties" as defined in the Tax Act, and options in respect of, interests in, or civil law rights in, any such properties; or (ii) the Non-Resident Holder's Offered Shares were acquired in certain types of tax-deferred exchanges in consideration for property that was itself taxable Canadian property.

A Non-Resident Holder's capital gain (or capital loss) in respect of the disposition of Offered Shares that constitute or are deemed to constitute taxable Canadian property (and are not "treaty-protected property" as defined in the Tax Act) will generally be computed in the manner described above under "*Certain Canadian Federal Income Tax Considerations – Holders Resident in Canada – Disposition of the Shares*". **Non-Resident Holders should consult with their own tax advisors to determine whether their Offered Shares may be "taxable Canadian property" having regard to their particular circumstances and to assess their corresponding Canadian tax reporting obligations.**

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as set out elsewhere in this Prospectus, none of (i) the Company's directors or executive officers, (ii) the shareholders who beneficially own, control or direct, directly or indirectly, more than 10% of the Company's voting securities, or (iii) any associate or affiliate of the persons referred to in (i) and (ii), has or has had any material interest, direct or indirect, in any transaction within the three years before the date of this Prospectus or in any proposed transaction that has materially affected or is reasonably expected to materially affect the Company or any of its subsidiaries.

ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS

Shannon Song, Kevin Morris, Jeff Hogan, Frank Timmerman, Eric Noyrez, Brook Hinchman, Emily Stephens, Nicholas Basso, Edgar Lee and Aman Kumar are directors and/or officers of the Company and reside outside of Canada. In addition, the Selling Shareholder is organized outside of Canada. The foregoing directors and officers of the Company and the Selling Shareholder have appointed the Company at its registered and head office in Toronto, Ontario as agent for service of process. Purchasers are advised that it may not be possible for investors to enforce judgments obtained in Canada against a person or company that is incorporated, continued or otherwise organized under the laws of a foreign jurisdiction or resides outside of Canada, even if the party has appointed an agent for service of process. See "*Risk Factors*" and in particular, the risk factor relating to difficulty enforcing judgments against non-resident directors of the Company.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Auditors

The auditors of the Company are KPMG LLP, 333 Bay Street, Suite 4600, Toronto, Ontario, Canada.

Transfer Agent and Registrar

The transfer agent and registrar of the Company is Computershare Trust Company of Canada at its principal office in Toronto, Ontario, Canada.

MATERIAL CONTRACTS

Except for contracts made in the ordinary course of business, the following are the material contracts entered into by the Company within two years prior to the date hereof and which are currently in effect:

1. Underwriting Agreement among the Company, the Selling Shareholder and the Underwriters. See “*Plan of Distribution*”.

A copy of the above material contract, if not already entered into then once executed, may be inspected during ordinary business hours at the Company’s registered and head office is located at 121 King Street West, Suite 1740, Toronto, Ontario, Canada M5H 3T9.

INTERESTS OF EXPERTS

Certain legal matters relating to the distribution of the Offered Shares will be passed upon by Fogler, Rubinoff LLP on behalf of the Company and by Stikeman Elliott LLP on behalf of the Underwriters. As of the date hereof, the partners and associates of Fogler, Rubinoff LLP as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares. As of the date hereof, the partners and associates of Stikeman Elliott LLP as a group, beneficially own, directly or indirectly, less than 1% of the outstanding Common Shares.

The Company has retained KPMG LLP to be the independent auditors of the Company within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

PURCHASERS’ STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In some jurisdictions, the securities legislation further provides a purchaser with remedies for rescission or revisions to the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions to the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser’s jurisdiction of residence. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser’s jurisdiction of residence for the particulars of these rights or consult with a legal advisor.

FINANCIAL STATEMENTS
NEO PERFORMANCE MATERIALS INC.
FINANCIAL STATEMENTS
FOR THE ONE DAY PERIOD ENDED SEPTEMBER 12, 2017 (DATE OF INCORPORATION)



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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Neo Performance Materials Inc.

We have audited the accompanying financial statements of Neo Performance Materials Inc., which comprise the statement of financial position as at September 12, 2017, the statement of cash flows and changes in equity for the one day period ended September 12, 2017 (date of incorporation), and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Neo Performance Materials Inc. as at September 12, 2017, and its financial performance and its cash flows for the one day period ended September 12, 2017 (date of incorporation) in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

November • , 2017
Toronto, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

NEO PERFORMANCE MATERIALS INC.
STATEMENT OF FINANCIAL POSITION
(All figures in United States dollars)

	<u>September 12,</u> <u>2017</u>
Cash	<u>\$1</u>
Total assets	<u>\$1</u>
Share capital	<u>\$1</u>
Total liabilities and shareholder's equity	<u>\$1</u>

Subsequent events (Note 5)

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

STATEMENT OF CASH FLOWS

(All figures in United States dollars)

	For the one day period ended September 12⁽¹⁾, 2017
Financing activities	
Issuance of common share on incorporation	<u>\$ 1</u>
Cash generated during the period	1
Cash, beginning of period	<u>—</u>
Cash, end of period	<u>\$ 1</u>

(1) September 12, 2017 – Date of Incorporation of Neo Performance Materials Inc.

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

STATEMENT OF CHANGES IN EQUITY

(All figures in United States dollars)

	Share Capital (authorized unlimited common shares)	
	Number	Amount
Shareholder's equity—beginning of period, September 12, 2017	<u>—</u>	<u>\$—</u>
Issuance of common share on date of incorporation	<u>1</u>	<u>1</u>
Shareholder's equity—end of period, September 12, 2017	<u>1</u>	<u>\$ 1</u>

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
NOTES TO FINANCIAL STATEMENTS
(All figures in United States dollars, unless otherwise stated)

NOTE 1 NATURE OF OPERATIONS

Neo Performance Materials Inc. (the “**Company**”) was incorporated on September 12, 2017 under the *Business Corporations Act* (Ontario) as Neo Performance Materials Inc. and issued 1 share to OCM Neo Holdings (Cayman), L.P. on that date. The Company was formed for the purpose of completing a Cayman Islands scheme of arrangement and a subsequent public offering of its common shares.

The Company’s registered and head office is located at 121 King Street West, Suite 1740, Toronto, Ontario, M5H 3T9.

NOTE 2 BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE

These financial statements as at and for the one day period ended September 12, 2017 have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”).

These financial statements are expressed in United States dollars.

The financial statements for the one day period ended September 12, 2017 were approved and authorized for issue by the Company’s Board of Directors on October 1, 2017.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash consists of cash on hand and unrestricted cash. Cash equivalents consist of highly liquid marketable investments with an original maturity date of 90 days or less from the date of acquisition. As of September 12, 2017, there were no cash equivalents.

NOTE 4 SHARE CAPITAL

The Company is authorized to issue (i) an unlimited number of common shares and (ii) an unlimited number of preferred shares. There is currently 1 common share and no preferred shares issued and outstanding.

NOTE 5 SUBSEQUENT EVENTS

On September 12, 2017, OCM Neo Holdings (Cayman), L.P. (“**OCM**”) formed the Company, a company incorporated in the province of Ontario, for the purpose of completing a Cayman Islands scheme of arrangement with Neo Cayman Holdings Ltd. (“**Neo Cayman**”) and a subsequent public offering of the common shares of the Company (“**Common Shares**”).

The Company filed a final prospectus on October 1, 2017 with the securities commissions of each of the provinces and territories of Canada for an initial public offering by way of secondary offering of 39,878,383 Common Shares held by OCM to the public at a price of C\$ 0.10 per share (the “**Offering**”), subject to the terms of an underwriting agreement entered into between the Company, the underwriters and OCM. Pursuant to the underwriting agreement, OCM granted the underwriters an over-allotment option, exercisable, in whole or in part, at any time prior to the 30th day after the closing of the Offering, to purchase from OCM that number of Common Shares equal to 15% of the Common Shares sold on the closing date of the Offering.

Prior to filing the final prospectus, the Company intends to complete the Arrangement with Neo Cayman whereby the Company will acquire all of the issued and outstanding shares of Neo Cayman in exchange for the issuance of an aggregate of 39,878,383 Common Shares. The acquisition by the Company of Neo Cayman will be a transaction amongst entities under common control. The Company intends to account for this transaction using book value accounting, based on the book values that would be recognized in the consolidated financial statements of Neo Cayman.

NEO CAYMAN HOLDINGS LTD.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2017
(With Predecessor condensed combined carve-out financial statements)

NEO CAYMAN HOLDINGS LTD.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Unaudited – all figures in thousands of United States dollars)

	June 30, 2017	December 31, 2016
ASSETS		
Current		
Cash and cash equivalents	\$ 77,970	\$ 79,408
Accounts receivable	46,139	39,168
Inventories (Note 6)	101,633	101,338
Income taxes receivable	3,767	1,321
Other current assets	16,849	17,283
Total current assets	246,358	238,518
Property, plant and equipment	85,895	87,818
Intangible assets	74,265	75,404
Goodwill	100,005	98,911
Investments (Note 7)	8,266	7,670
Deferred tax assets	7,044	3,209
Other non-current assets	2,249	2,221
Total non-current assets	277,724	275,233
Total assets	\$524,082	\$513,751
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt (Note 8)	\$ —	\$ 7,925
Accounts payable and other accrued charges	45,691	57,387
Income taxes payable	3,185	4,823
Other current liabilities	647	937
Total current liabilities	49,523	71,072
Employee benefits	2,819	2,665
Derivative liability (Note 8)	9,746	9,654
Provisions	4,350	4,350
Deferred tax liabilities	26,509	21,310
Other non-current liabilities	600	604
Total non-current liabilities	44,024	38,583
Total liabilities	93,547	109,655
Non-controlling interest	6,363	6,260
Equity attributable to equity holders of Neo Cayman Holdings Ltd.	424,172	397,836
Total equity	430,535	404,096
Total liabilities and equity	\$524,082	\$513,751
Commitments and contingencies (Note 11)		
Subsequent events (Notes 11 and 20)		

See accompanying notes

NEO CAYMAN HOLDINGS LTD.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
(With Predecessor condensed combined carve-out financial statements)

(Unaudited – all figures in thousands of United States dollars, except per share information)

	Successor			Predecessor	
	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	April 5 ⁽¹⁾ to June 30, 2016	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Revenue	\$101,634	\$208,296	\$—	\$94,876	\$186,427
Costs of sales					
Costs excluding depreciation and amortization	67,237	141,993	—	65,961	136,837
Depreciation and amortization	3,150	4,932	—	2,658	5,283
Gross profit	31,247	61,371	—	26,257	44,307
Expenses					
Selling, general and administrative	16,237	27,126	—	13,135	22,879
Stock-based compensation	1,623	4,981	—	—	—
Depreciation and amortization	1,711	3,396	—	1,942	3,887
Research and development	3,870	7,182	—	3,818	6,917
	23,441	42,685	—	18,895	33,683
Operating income	7,806	18,686	—	7,362	10,624
Other income	1,276	3,049	—	1,939	1,944
Finance income (costs), net	90	25	—	(2,538)	(3,921)
Foreign exchange loss	(537)	(523)	—	(1,239)	(4,350)
Reorganization items	—	—	—	(462)	(478)
Income from operations before income taxes and equity income of associates	8,635	21,237	—	5,062	3,819
Income tax benefit (expense) (Note 14)	640	(4,067)	—	(4,246)	(7,477)
Income (loss) from operations before equity income of associates	9,275	17,170	—	816	(3,658)
Equity income of associates (net of income tax) (Note 7)	275	605	—	256	347
Net income (loss)	\$ 9,550	\$ 17,775	\$—	\$ 1,072	\$ (3,311)
Attributable to:					
Equity holders of Neo Cayman Holdings Ltd.	\$ 9,294	\$ 17,472	\$—	\$ 1,111	\$ (3,266)
Non-controlling interest	256	303	—	(39)	(45)
	\$ 9,550	\$ 17,775	\$—	\$ 1,072	\$ (3,311)
Earnings per share data attributable to equity holders of Neo Cayman Holdings Ltd.:					
Basic (Note 13)	\$ 0.93	\$ 1.76	\$—	NA	NA
Diluted (Note 13)	\$ 0.93	\$ 1.74	\$—	NA	NA

(1) April 5, 2016 – date of incorporation of Neo Cayman Holdings Ltd., the Successor entity (see Note 3 Basis of Preparation)

See accompanying notes

NEO CAYMAN HOLDINGS LTD.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(With Predecessor condensed combined carve-out financial statements)

(Unaudited – all figures in thousands of United States dollars)

	Successor			Predecessor	
	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	April 5 ⁽¹⁾ to June 30, 2016	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Net income (loss) for the period	<u>\$ 9,550</u>	<u>\$17,775</u>	<u>\$—</u>	<u>\$ 1,072</u>	<u>\$(3,311)</u>
Other comprehensive income (loss):					
Item that is or may be reclassified subsequently to profit or loss:					
Currency translation adjustment	<u>2,797</u>	<u>3,903</u>	<u>—</u>	<u>(3,938)</u>	<u>(2,123)</u>
Other comprehensive income (loss) for the period	<u>2,797</u>	<u>3,903</u>	<u>—</u>	<u>(3,938)</u>	<u>(2,123)</u>
Total comprehensive income (loss) for the period	<u>\$12,347</u>	<u>\$21,678</u>	<u>\$—</u>	<u>\$(2,866)</u>	<u>\$(5,434)</u>
Attributable to:					
Non-controlling interest	266	323	—	(50)	(50)
Equity holders of Neo Cayman Holdings Ltd.	12,081	21,355	—	(2,816)	(5,384)

(1) April 5, 2016 – date of incorporation of Neo Cayman Holdings Ltd., the Successor entity (see Note 3 Basis of Preparation)

See accompanying notes

NEO CAYMAN HOLDINGS LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(With Predecessor condensed combined carve-out financial statements)

(Unaudited – all figures in thousands of United States dollars)

	Successor		Predecessor
	Six Months Ended June 30, 2017	April 5 ⁽¹⁾ to June 30, 2016	Six Months Ended June 30, 2016
Operating activities			
Net income (loss) for the period	\$ 17,775	\$—	\$ (3,311)
Add (deduct) items not affecting cash:			
Depreciation and amortization	8,328	—	9,170
Stock-based compensation	4,981	—	—
Acquired inventory fair value release (Note 5 and 6)	3,443	—	—
Change in pension liability	154	—	92
Net finance costs (income)	(25)	—	3,921
Equity income of associates (Note 7)	(605)	—	(347)
Loss on disposal of property, plant and equipment	532	—	15
Income tax expense (Note 14)	4,067	—	7,477
Foreign exchange (gain) loss	(598)	—	4,307
Other	(154)	—	1,044
Allowance for doubtful accounts	—	—	16
Income and expenses allocated from parents	—	—	1,972
Reorganization items	—	—	245
Net change in non-cash working capital balances related to operations (Note 10)	(21,098)	—	21,564
Income taxes paid	(6,993)	—	(5,448)
Interest received, net of interest paid	115	—	(1,025)
Cash provided by operating activities	9,922	—	39,692
Investing activities			
Additions of property, plant and equipment	(4,303)	—	(3,309)
Dividends received from associates	9	—	—
Loan to related parties	—	—	(15,000)
Cash used in investing activities	(4,294)	—	(18,309)
Financing activities			
Repayment of bank advances and other short-term debt	(7,949)	—	(9,734)
Dividends paid to non-controlling interest	(220)	—	(610)
Movement in net parent's investment	—	—	(5,000)
Cash used in financing activities	(8,169)	—	(15,344)
Effect of exchange rate changes on cash	1,103	—	(1,252)
Cash (used) provided during the period	(1,438)	—	4,787
Cash and cash equivalents, beginning of period	79,408	—	101,302
Cash and cash equivalents, end of period	\$ 77,970	\$—	\$106,089

(1) April 5, 2016 – date of incorporation of Neo Cayman Holdings Ltd., the Successor entity (see Note 3 Basis of Preparation)

See accompanying notes

NEO CAYMAN HOLDINGS LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(With Predecessor condensed combined carry-out financial statements)
(Unaudited – all figures in thousands of United States dollars)

	Share Capital (authorized 50,000,000 common shares)		Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains (net of tax)	Accumulated Other Comprehensive Income	Equity Attributable to Equity Holders of Neo Cayman Holdings Ltd.	Non- Controlling Interest	Total Parent's Net Investment	Total Shareholders' Equity
	Number	Amount									
Successor											
Balance – January 1, 2017	9,907,561	\$10	\$(12,645)	\$416,441	\$(6,410)	\$ 440	\$(5,970)	\$397,836	\$6,260	\$ —	\$404,096
Net earnings	—	—	17,472	—	—	—	—	17,472	303	—	17,775
Other comprehensive income	—	—	—	—	3,883	—	3,883	3,883	20	—	3,903
Total comprehensive income	—	—	17,472	—	3,883	—	3,883	21,355	323	—	21,678
Reissuance of common shares	35,061	—	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	4,981	—	—	—	4,981	—	—	4,981
Distributions paid to non-controlling interest	—	—	—	—	—	—	—	—	(220)	—	(220)
	35,061	—	—	4,981	—	—	—	4,981	(220)	—	4,761
Balance – June 30, 2017	9,942,622	\$10	\$ 4,827	\$421,422	\$(2,527)	\$ 440	\$(2,087)	\$424,172	\$6,363	\$ —	\$430,535
Balance – April 5, 2016	—	\$—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net earnings	—	—	—	—	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	—	—	—	—	—	—
Issuance of common shares	1,000	—	—	—	—	—	—	—	—	—	—
Balance – June 30, 2016	1,000	\$—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Predecessor											
Balance – January 1, 2016	—	\$—	\$ —	\$ —	\$ 482	\$(2,462)	\$(1,980)	\$ —	\$4,632	\$359,276	\$361,928
Net loss	—	—	—	—	—	—	—	—	(45)	(3,266)	(3,311)
Other comprehensive income (loss)	—	—	—	—	(2,118)	—	(2,118)	—	(5)	—	(2,123)
Total comprehensive income	—	—	—	—	(2,118)	—	(2,118)	—	(50)	(3,266)	(5,434)
Movement in net Parent's investment	—	—	—	—	—	—	—	—	—	5,600	5,600
	—	—	—	—	(2,118)	—	(2,118)	—	(50)	2,334	166
Balance – June 30, 2016	—	\$—	\$ —	\$ —	\$(1,636)	\$(2,462)	\$(4,098)	\$ —	\$4,582	\$361,610	\$362,094

See accompanying notes

NEO CAYMAN HOLDINGS LTD.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(With Predecessor condensed combined carve-out financial statements)

(Unaudited – tabular figures in thousands of United States dollars, unless otherwise stated)

NOTE 1 NATURE OF OPERATIONS

Neo Cayman Holdings Ltd. (“Neo”, the “Company” or the “Group”) is domiciled in the Cayman Islands with its registered office at 27 Hospital Road, George Town, Grand Cayman KY1-9008. Neo has established itself as a global leader in the innovation and manufacturing of rare earth- and rare metal-based functional materials, which are essential inputs to high technology, high growth, future-facing industries. Neo has approximately 1,830 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States, Germany, Canada, Thailand and South Korea as well as two dedicated R&D centres in Singapore and the United Kingdom. Neo is the only non-Chinese company with a license to separate rare earths in China which provides unique competitive advantages and a degree of vertical integration. Since 1994, Neo has leveraged its rare earth separation expertise to innovate and grow into a leading manufacturer of functional engineered materials for specialty end markets. This includes establishing the #1 global market position in bonded magnets, a top three global market position in auto emission control catalysts, the #1 global GaCl₃ producer for LEDs and growth opportunities into new end markets such as wastewater treatment. The Company is organized along three business segments: Magnequench, Chemicals and Oxides (“C&O”), and Rare Metals.

Magnequench

The Magnequench segment, with over thirty years of manufacturing experience, is the world leader in the production of magnetic powders used in bonded and hot deformed fully dense NdFeB magnets. These powders are formed through Magnequench’s market-leading technology related to the development, processing and manufacturing of magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of REOs as the primary input. These powders are used in the production of bonded permanent magnets that are components in automotive motors, micro motors, traction motors, sensors and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

C&O

The C&O segment manufactures and distributes a broad range of light and heavy rare earth functional materials that have become an indispensable part of modern life. Neo’s world-class rare earth processing and materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered materials. Applications from these products include emission-control catalysts, consumer electronics, petroleum refining, hybrid and electric vehicles and wastewater treatment.

Rare Metals

The Rare Metals segment sources, reclaims, produces, refines and markets high value metals and their compounds. These products include both high temperature metals (tantalum, niobium, hafnium and rhenium) and electronic metals (gallium and indium). Applications from products made in this segment primarily include superalloys for jet engines, medical imaging, wireless technologies and LED lighting. Other applications include their use in flat panel displays, solar, steel additives, batteries and electronics applications.

Corporate

Neo’s head office is in Toronto, Ontario, Canada, with additional corporate offices in Greenwood, Colorado, U.S. and Beijing, China. The functions of this group include finance, administration, information technology, accounting and legal.

NOTE 2 GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

These unaudited interim condensed consolidated financial statements as at and for the three and six months period ended June 30, 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company’s annual financial statements for the period from April 5, 2016 (date of incorporation) to December 31, 2016. The significant accounting policies disclosed in Note 4 of the Company’s annual financial statements for the period from April 5, 2016 (date of incorporation) to December 31, 2016 have been applied consistently in the preparation of these unaudited interim condensed consolidated financial statements.

The unaudited interim condensed consolidated financial statements are presented in United States dollars (“U.S. dollars”).

The unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2017 were approved and authorized for issue by the Company’s Board of Directors on ● , 2017.

NOTE 3 BASIS OF PREPARATION

On June 25, 2015 (the “Petition Date”), Molycorp, Inc., together with certain of its subsidiaries (collectively, “Molycorp”), filed a voluntary petition for reorganization under chapter 11 (the “Chapter 11 Cases”) of title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the District of Delaware (the “Court”). On August 31, 2016, (the “Reorganization date”), pursuant to the terms of the Fourth Joint Amended Plan of Reorganization, certain subsidiaries of Molycorp emerged from bankruptcy (the “Reorganization”). The reorganized business is comprised of a number of operating subsidiaries organized under a holding company, Neo Cayman Holdings Ltd., which is ultimately controlled by Oaktree Capital Management L.P. As a result of the reorganization, Neo Cayman Holdings Ltd. (“the

Successor”) acquired certain subsidiaries of Molycorp representing downstream business operations denominated Neo Performance Materials Operations (“Predecessor”). As further described in Note 5, the Reorganization of the Neo Performance Materials Operations was accounted using IFRS 3 – Business Combinations to account for the transfer of ownership of the Predecessor to Neo Cayman Holdings Ltd.

Periods presented prior to August 31, 2016 represent the operations of the Predecessor and periods presented on and after August 31, 2016 represent the operations of the Successor. Neo Cayman Holdings Ltd. was incorporated on April 5, 2016 and had no commercial operations until its acquisition of the Predecessor on August 31, 2016.

Successor

These unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2017 have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of these unaudited interim condensed consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) requires the use of certain accounting estimates. It also requires management to exercise judgment in applying the Company’s accounting policies. The significant estimates and judgments made by management and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements as at December 31, 2016 and for the period from April 5, 2016 (date of incorporation) to December 31, 2016.

Predecessor

The Predecessor, which represents the historical financial information of the acquired subsidiaries of Molycorp, upon completion of the Reorganization, is not an existing legal entity for the Predecessor periods presented in these interim condensed consolidated financial statements. Management has prepared the interim condensed combined carve-out financial statements for the purpose of providing historical financial information of the Predecessor to allow comparability with the Successor’s interim condensed consolidated financial statements for the periods after the acquisition.

The interim condensed combined carve-out financial statements of the Predecessor are presented for the three and six months ended June 30, 2016, and have been prepared on a combined carve-out basis from the underlying books and records of the components of Molycorp, to represent the historical financial performance of the Predecessor as if the Predecessor had existed on a stand-alone basis for the periods presented herein. The interim condensed combined carve-out financial statements have been prepared in conformity with IAS 34 Interim Financial Reporting.

The interim condensed combined carve-out financial statements are prepared by combining financial information from the business segments of Molycorp as described above and include the assets, liabilities, revenues and expenses that management has determined are specifically attributable to the Predecessor. Certain expenses and expenditures presented in the Predecessor condensed combined carve-out financial statements represent allocation of the cost of services previously incurred by Molycorp, which would be required to operate the Predecessor. Management believes these allocations reasonably reflect the expenses for the Predecessor which have been incurred during the periods presented, including administrative and corporate costs relate to certain support functions that were provided on a centralized basis within Molycorp. The support functions provided to the Predecessor by Molycorp include, but are not limited to accounting, information technology, taxation, legal, corporate services, corporate governance and other professional services.

The costs of these services have been allocated to the Predecessor for purposes of preparing the condensed combined carve-out financial statements based on estimated usage of the resources by the Predecessor. The estimated usage of central support resources by the Predecessor has been determined by its portion of total assets utilized to generate revenue. Management considers that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the costs that would have been incurred if the Predecessor had been operated on a stand-alone basis.

Central support costs of the Predecessor for the three and six months ended June 30, 2016 amounted to \$0.3 million and \$2.1 million, respectively.

The interim condensed combined carve-out financial statements do not include the results of operations of certain Molycorp subsidiaries related to the Resources business segment including Molycorp’s Mountain Pass operation. The transaction and balances with these subsidiaries have not been eliminated and have been presented as transactions with related parties as disclosed in Note 16 to these interim condensed consolidated financial statements.

The interim condensed combined carve-out financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Income taxes were determined based on the assumption that the companies in the Predecessor were separate taxable entities. This assumption implies that the current and deferred income taxes of all companies and of the tax groups within the Predecessor are calculated separately and the recoverability of the deferred tax assets is also assessed accordingly. Due to the fact that certain entities of Molycorp did not file separate tax returns in previous years, the respective current tax assets and liabilities, as well as the deferred tax assets on net operating losses, are deemed either contributed or distributed to the respective tax group member filing the tax return with a corresponding effect in the equity of the (non-Molycorp group) shareholder as of the end of the respective fiscal year. The taxes actually paid by the Predecessor have been presented in the condensed consolidated statement of cash flows; the deemed contributions or distributions have not been included. Receivables and payables between Molycorp and the Predecessor arising from the group have been disclosed under other tax receivables / payables.

The Predecessor and Successor periods have been separated by a black line on the financial statements to highlight the fact that the financial information for such periods has been prepared under two different cost basis of accounting. All intercompany transactions have been eliminated.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS

The following accounting pronouncements issued by the IASB were not effective for the Company as of June 30, 2017 and therefore have not been applied in preparing these consolidated financial statements. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 15 – Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 (“**IFRS 15**”). IFRS 15 will replace IAS 18 – Revenue, IAS 11 – Construction Contracts and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall in the scope of other IFRS standards. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities. IFRS 15 is to be applied on either a full or modified retrospective approach and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has commenced its assessment to determine which segments and revenue streams will be impacted. In addition, transition options and choice of practical expedients will also be assessed and determined. The Company expects to complete the assessment and implementation in the fourth quarter of 2017.

The Company expects to disclose additional detailed information, including its transition method, any practical expedients elected and estimated quantitative financial effects prior to the adoption of IFRS 15 in the fourth quarter of 2017.

IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9 (2014) (“**IFRS 9**”). IFRS 9 provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently assessing the potential impact of this standard; however, based on initial assessment, the Company does not expect the adoption of this standard to have a material impact on the classification and measurement of its financial assets and liabilities in its consolidated financial statements. With respect to impairment of financial assets, the Company has commenced the assessment of its impact and expects to complete the assessment and the implementation in the fourth quarter of 2017.

IFRS 16 – Leases

On January 13, 2016 the IASB issued IFRS 16 – Leases (“**IFRS 16**”). IFRS 16 supersedes IAS 17 – Leases, IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC-15 – Operating Leases – Incentives and SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. IFRS 16 has an effective date of January 1, 2019, with early application permitted only if IFRS 15 has also been adopted. Management is currently assessing the impact of this standard on its consolidated financial statements and expects to complete the assessment in the first half of 2018.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

On December 8, 2016, the IASB issued IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration (“**IFRIC 22**”). IFRIC 22 is applicable for annual periods beginning on or after January 1, 2018, and permits early adoption. IFRIC 22 clarifies which date should be used for translation when foreign currency transactions involve an advance payment or receipt. IFRIC 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Company intends to adopt this standard in its consolidated financial statements for the annual period beginning on January 1, 2018. The Company has commenced to assess its impact and expects to complete the assessment in the fourth quarter of 2017.

NOTE 5 BUSINESS COMBINATION

On August 31, 2016, pursuant to the Fourth Joint Amended Plan of Reorganization, Neo Cayman Holdings Ltd. acquired control of the downstream business of Molycorp in exchange for the partial satisfaction of allowed claims valued at \$416.9 million.

As a result of the Reorganization, the Company has applied IFRS 3 – Business Combinations to account for the transfer of ownership of the downstream Neo businesses to Neo Cayman Holdings Ltd.

The final allocation of the total purchase price of \$416.9 million is shown below:

<u>Working capital, including:</u>	
Cash and cash equivalents	\$ 90,321
Accounts receivable	35,020
Inventories	126,087
Income taxes receivable	1,321
Other current assets	20,118
Accounts payable and other accrued charges	(76,707)
Income taxes payable	(4,228)
Provisions	(4,350)
Other current liabilities	(877)
Property, plant and equipment	91,882
Intangible assets	78,200
Goodwill	100,736
Deferred tax assets	286
Investments	7,839
Other non-current assets	2,306
Bank advances and other short-term debt	(7,689)
Deferred tax liabilities	(23,290)
Employee benefits	(3,443)
Derivative liability	(9,502)
Other non-current liabilities	(491)
Non-controlling interest	(6,618)
Total	<u>\$416,921</u>

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Property, plant and equipment

Market comparison technique and cost technique: The valuation model considers quoted market process for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as economic obsolescence.

Intangible assets

The multi-period excess earnings method: The fair value of customer relationships was calculated based on the present value of net cash flows expected to be generated by the customer relationships, excluding any cash flows related to contributory assets.

Inventories

Market comparison technique: The fair value was determined based on the estimated selling price in the ordinary course of business less the estimated cost of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Goodwill associated with the acquisition of the downstream business of Molycorp, Inc. arose primarily because of the Company's proven leadership in the development, processing, and distribution of technically advanced rare earth products; exposure to the world's largest and fastest-growing rare earths consuming markets, China; deferred tax liabilities; and expected synergies that do not qualify for separate recognition. The goodwill is not amortized and is not deductible for tax purposes.

NOTE 6 INVENTORIES

Inventories, stated at the lower of weighted-average cost or net realizable value, consist of the following:

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Raw materials	\$ 29,931	\$ 30,163
Work-in-progress	18,915	17,474
Finished goods	45,929	47,707
Supplies	6,858	5,994
Total	<u>\$101,633</u>	<u>\$101,338</u>

The cost of finished goods manufactured includes appropriate materials, labour and production overhead expenditure.

For the three and six months ended June 30, 2017, \$0.5 million and \$3.4 million, respectively, of the fair value increments related to the inventory acquired through the business combination disclosed in Note 5 were released and recorded in costs of sales in the condensed consolidated statement of profit or loss.

NOTE 7 INVESTMENTS

The Company holds a 25% ownership interest in Ganzhou Keli Rare Earth New Material Co., Ltd. ("Keli"), a company which converts rare earth oxides into metals for use in Magnequench Powders.

The Company holds a 33% investment in Toda Magnequench Magnetic Materials Co. Ltd. (“TMT”), which produces rare earth magnetic compounds with Magnequench Powders supplied by Magnequench (Tianjin) Company Limited (“MQTJ”) in its normal course of business.

The Company also holds a 20% ownership interest in GQD Special Materials (Thailand) Co., Ltd. (“GQD”), a company which converts rare earth oxides into metals for use in Magnequench Powders.

<u>Name</u>	<u>Country of Incorporation or Registration</u>	<u>Percentage Share Holdings</u>
Keli	China	25%
TMT	China	33%
GQD	Thailand	20%

Investments accounted for using the equity method are as follows:

	<u>TMT</u>	<u>Keli</u>	<u>GQD</u>	<u>Total</u>
Carrying value at January 1, 2017	\$1,788	\$5,178	\$ 704	\$7,670
Share of results in associates	(5)	968	(358)	605
Dividends received from associates	(9)	—	—	(9)
Carrying value at June 30, 2017	<u>\$1,774</u>	<u>\$6,146</u>	<u>\$ 346</u>	<u>\$8,266</u>
Carrying value at April 5, 2016	\$ —	\$ —	\$ —	\$ —
Acquisition through business combination (Note 5)	1,842	5,293	704	7,839
Share of results in associates	(54)	(115)	—	(169)
Carrying value at December 31, 2016	<u>\$1,788</u>	<u>\$5,178</u>	<u>\$ 704</u>	<u>\$7,670</u>

NOTE 8 CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts presented in the consolidated statements of financial position relate to the following categories of assets and liabilities:

<u>Financial Assets</u>	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Loans and Receivables		
Trade receivables	\$ 46,139	\$ 39,168
Fair value through profit or loss		
Cash and cash equivalents	77,970	79,408
Total financial assets	<u>\$124,109</u>	<u>\$118,576</u>
Financial Liabilities	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Fair value through profit or loss		
Put option issued to non-controlling interest of Buss & Buss (Derivative liability)	\$ 9,746	\$ 9,654
Measured at amortized cost		
Current:		
Accounts payable and other accrued charges	45,691	57,387
Bank advances and other short-term debt	—	7,925
	<u>45,691</u>	<u>65,312</u>
Total financial liabilities	<u>\$55,437</u>	<u>\$74,966</u>

8.1 Derivative liability

As at June 30, 2017, the Company’s derivative liability is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss Spezialmetalle GmbH (“Buss & Buss”). The derivative is measured at fair value.

	<u>Buss & Buss put option</u>
Fair value, January 1, 2017	\$9,654
Movement in fair value during the period	92
Fair value, June 30, 2017	<u>\$9,746</u>
Fair value, April 5, 2016	\$ —
Acquisition through business combination (Note 5)	9,502
Movement in fair value during the period	152
Fair value, December 31, 2016	<u>\$9,654</u>

The Buss & Buss put option is related to a share purchase agreement (“SPA”) between NMT Holding GmbH, a German subsidiary of the Company, and the shareholders of Buss & Buss entered into May 27, 2010. The SPA includes a call and a put option on shares of the remaining

shareholder and his legal successors. If the call option is exercised by the Company, a premium is added to the consideration to purchase the underlying shares in Buss & Buss. If the put option is exercised by the remaining shareholder or his legal successors, a discount will reduce the cost basis of the securities sold to the Company. Although, the final amount of the put option is not known, the initial fair value of this obligation has been determined by a third party valuator based on information currently available. The liability is subsequently re-measured at each reporting period with the change in fair value recorded in consolidated statement of profit or loss.

8.2 Financial assets and liabilities measured at fair value

The following table presents financial assets and liabilities measured at fair value in the consolidated statements of financial position in accordance with the fair value hierarchy. It does not include financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the consolidated statements of financial position as at June 30, 2017 are grouped into the fair value hierarchy as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial Assets:			
Cash and cash equivalents	\$77,970	\$ —	\$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	\$ —	\$ —	\$9,746

The Company's derivative liability classified in Level 3 uses the discounted cash flow method to determine the fair value based on significant inputs that are not based on observable market data.

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not significantly change amounts recognized in net income, total assets, total liabilities or total equity.

There have been no transfers between levels for the period ended June 30, 2017.

8.3 Bank advances, short-term loan and debt

8.3.1 Chinese bank advances

As of June 30, 2017, one of the Chinese subsidiaries has a line of credit of approximately \$7.4 million (Renminbi 50.0 million). No amount was drawn as at June 30, 2017.

8.3.2 German debt facility

As at June 30, 2017, one of the subsidiaries in Germany has a \$8.0 million (€7.0 million) revolving line of credit which can be drawn either in Euro or U.S. dollar. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate ("Euribor") average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling partner of Buss & Buss amounting to \$0.3 million (€0.25 million) as well as a lien amounting to \$0.6 million (€0.5 million) on certain property, plant and equipment. The remainder of the revolving line of credit is secured by certain working capital of Buss & Buss.

No amount was drawn as at June 30, 2017.

There are no financial covenants which need to be met.

NOTE 9 OPERATING SEGMENTS

The primary metric used to measure the financial performance of each operating segment is adjusted operating income before depreciation and amortization ("**Adjusted OIBDA**"), which provides a better indication of the base-line performance of the Company's core business operations.

A comparative breakdown of business segment information is as follows:

SUCCESSOR:

For the three months ended June 30, 2017:

	<u>Magnequench</u>	<u>Chemicals and Oxides</u>	<u>Rare Metals</u>	<u>Corporate head office</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
External revenue	\$42,277	\$38,298	\$21,059	\$ —	\$101,634	\$ —	\$101,634
Inter-segment revenue	—	3,068	—	—	3,068	(3,068)	—
Total revenue	\$42,277	\$41,366	\$21,059	\$ —	\$104,702	\$(3,068)	\$101,634
Operating income (loss)	\$ 8,498	\$ 4,538	\$ 1,485	\$(6,419)	\$ 8,102	\$(296)	\$ 7,806
Other income							1,276
Finance income, net							90
Foreign exchange loss							(537)
Income from operations before income taxes and equity income of associates							\$ 8,635
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	\$ 8,498	\$ 4,538	\$ 1,485	\$(6,419)	\$ 8,102	\$(296)	\$ 7,806
Depreciation and amortization	2,531	974	1,218	138	4,861	—	4,861
Fair value of inventory release ⁽¹⁾	32	723	(247)	—	508	—	508
Stock-based compensation expense ⁽²⁾	89	178	99	1,257	1,623	—	1,623
Adjusted OIBDA⁽³⁾	\$11,150	\$ 6,413	\$ 2,555	\$(5,024)	\$ 15,094	\$(296)	\$ 14,798
Capital expenditures	\$ 317	\$ 1,431	\$ 1,191	\$ —	\$ 2,939	\$ —	\$ 2,939

(1) In accordance with IFRS 3 – Business Combinations, and on completion of the Reorganization, the Company recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the three month period ended June 30, 2017 and had an impact on operating income (loss).

(2) Represents non-cash stock-based compensation expense relating to the management incentive plan adopted upon the completion of the Reorganization.

(3) Certain items are excluded from operation income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

For the six months ended June 30, 2017:

	<u>Magnequench</u>	<u>Chemicals and Oxides</u>	<u>Rare Metals</u>	<u>Corporate head office</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
External revenue	\$89,721	\$79,095	\$39,480	\$ —	\$208,296	\$ —	\$208,296
Inter-segment revenue	—	5,337	—	—	5,337	(5,337)	—
Total revenue	\$89,721	\$84,432	\$39,480	\$ —	\$213,633	\$(5,337)	\$208,296
Operating income (loss)	\$19,770	\$ 9,198	\$ 2,688	\$(12,372)	\$ 19,284	\$(598)	\$ 18,686
Other income							3,049
Finance income, net							25
Foreign exchange loss							(523)
Income from operations before income taxes and equity income of associates							\$ 21,237
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	\$19,770	\$ 9,198	\$ 2,688	\$(12,372)	\$ 19,284	\$(598)	\$ 18,686
Depreciation and amortization	3,661	2,008	2,465	194	8,328	—	8,328
Fair value of inventory release ⁽¹⁾	868	2,881	(306)	—	3,443	—	3,443
Stock-based compensation expense ⁽²⁾	296	592	329	3,764	4,981	—	4,981
Adjusted OIBDA⁽³⁾	\$24,595	\$14,679	\$ 5,176	\$(8,414)	\$ 36,036	\$(598)	\$ 35,438
Capital expenditures	\$ 563	\$ 1,819	\$ 1,921	\$ —	\$ 4,303	\$ —	\$ 4,303

(1) In accordance with IFRS 3 – Business Combinations, and on completion of the Reorganization, the Company recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the six month period ended June 30, 2017 and had an impact on operating income (loss).

(2) Represents non-cash stock-based compensation expense relating to the management incentive plan adopted upon the completion of the Reorganization.

(3) Certain items are excluded from operation income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

For the period from April 5 to June 30, 2016:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate head office	Total for reportable segments	Eliminations	Total
External revenue	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Inter-segment revenue	—	—	—	—	—	—	—
Total revenue	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Operating income (loss)	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Other income							—
Finance costs, net							—
Foreign exchange loss							—
Income from operations before income taxes and equity income of associates							\$—
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Depreciation and amortization	—	—	—	—	—	—	—
Fair value of inventory release	—	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	—
Adjusted OIBDA	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Capital expenditures	\$—	\$—	\$—	\$—	\$—	\$—	\$—

PREDECESSOR:

For the three months ended June 30, 2016:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate head office	Total for reportable segments	Eliminations	Total
External revenue	\$41,322	\$36,631	\$16,923	\$—	\$94,876	\$—	\$94,876
Inter-segment revenue	—	1,786	—	—	1,786	(1,786)	—
Total revenue	\$41,322	\$38,417	\$16,923	\$—	\$96,662	\$(1,786)	\$94,876
Operating income (loss)	\$ 6,881	\$ 5,706	\$(1,134)	\$(4,550)	\$ 6,903	\$ 459	\$ 7,362
Other income							1,939
Finance costs, net							(2,538)
Foreign exchange loss							(1,239)
Reorganization items							(462)
Income from operations before income taxes and equity income of associates							\$ 5,062
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	\$ 6,881	\$ 5,706	\$(1,134)	\$(4,550)	\$ 6,903	\$ 459	\$ 7,362
Depreciation and amortization	2,289	1,042	1,228	41	4,600	—	4,600
Adjusted OIBDA⁽¹⁾	\$ 9,170	\$ 6,748	\$ 94	\$(4,509)	\$11,503	\$ 459	\$11,962
Capital expenditures	\$ 369	\$ 785	\$ 486	\$ —	\$ 1,640	\$ —	\$ 1,640

(1) Certain items are excluded from operation income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

For the six months ended June 30, 2016:

	<u>Magnequench</u>	<u>Chemicals and Oxides</u>	<u>Rare Metals</u>	<u>Corporate head office</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
External revenue	\$77,415	\$73,800	\$35,212	\$ —	\$186,427	\$ —	\$186,427
Inter-segment revenue	—	4,720	—	—	4,720	(4,720)	—
Total revenue	\$77,415	\$78,520	\$35,212	\$ —	\$191,147	\$(4,720)	\$186,427
Operating income (loss)	\$12,282	\$ 7,163	\$(2,607)	\$(7,095)	\$ 9,743	\$ 881	\$ 10,624
Other income							1,944
Finance costs, net							(3,921)
Foreign exchange loss							(4,350)
Reorganization items							(478)
Income from operations before income taxes and equity income of associates							\$ 3,819
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	\$12,282	\$ 7,163	\$(2,607)	\$(7,095)	\$ 9,743	\$ 881	\$ 10,624
Depreciation and amortization	4,567	2,069	2,452	82	9,170	—	9,170
Adjusted OIBDA⁽¹⁾	\$16,849	\$ 9,232	\$ (155)	\$(7,013)	\$ 18,913	\$ 881	\$ 19,794
Capital expenditures	\$ 504	\$ 1,839	\$ 966	\$ —	\$ 3,309	\$ —	\$ 3,309

(1) Certain items are excluded from operation income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

As at June 30, 2017:

	<u>Magnequench</u>	<u>Chemicals and Oxides</u>	<u>Rare Metals</u>	<u>Corporate head office</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
Total assets	\$238,630	\$175,902	\$101,962	\$ 9,030	\$525,524	\$(1,442)	\$524,082
Investment in equity method associates	\$ 8,266	\$ —	\$ —	\$ —	\$ 8,266	\$ —	\$ 8,266
Total liabilities	\$(33,420)	\$(24,804)	\$(22,210)	\$(13,303)	\$(93,737)	\$ 190	\$(93,547)

As at December 31, 2016:

	<u>Magnequench</u>	<u>Chemicals and Oxides</u>	<u>Rare Metals</u>	<u>Corporate head office</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
Total assets	\$231,606	\$174,768	\$104,962	\$ 4,732	\$ 516,068	\$(2,317)	\$ 513,751
Investment in equity method associates	\$ 7,670	\$ —	\$ —	\$ —	\$ 7,670	\$ —	\$ 7,670
Total liabilities	\$(41,925)	\$(25,310)	\$(27,449)	\$(17,288)	\$(111,972)	\$ 2,317	\$(109,655)

The geographic distribution of the Company's revenue based on the location of the customers, for the three and six months ended June 30, 2017 and 2016, is summarized as follows:

	<u>Successor</u>			<u>Predecessor</u>	
	<u>Three Months Ended June 30, 2017</u>	<u>Six Months Ended June 30, 2017</u>	<u>April 5 to June 30, 2016</u>	<u>Three Months Ended June 30, 2016</u>	<u>Six Months Ended June 30, 2016</u>
Revenue					
Asia:					
China	\$ 32,205	\$ 67,864	\$—	\$29,217	\$ 54,901
Japan	13,352	28,817	—	12,897	24,355
Thailand	3,447	6,962	—	4,013	8,196
South Korea	5,696	11,122	—	4,166	8,330
North America	22,964	44,496	—	16,628	37,365
Europe	21,867	45,155	—	24,826	47,221
Other	2,103	3,880	—	3,129	6,059
Total	\$101,634	\$208,296	\$—	\$94,876	\$186,427

Revenues from one significant customer accounts for \$15.0 million and \$34.0 million of Company's total revenues for the three and six months period ended June 30, 2017 and \$15.2 million and \$28.3 million for the three and six months ended June 30, 2016. The Company defines significant customers as those that are 10% or more of consolidated revenues.

NOTE 10 SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital balances related to operations consists of the following:

	Successor		Predecessor
	Six Months Ended June 30, 2017	April 5 to June 30, 2016	Six Months Ended June 30, 2016
Decrease (increase) in assets:			
Accounts receivable	\$ (6,562)	\$—	\$ (2,301)
Inventories	(2,808)	—	18,681
Other assets	459	—	2,949
Increase (decrease) in liabilities:			
Accounts payable and other accrued charges	(12,187)	—	5,242
Related party payables	—	—	(3,007)
Total net change	\$(21,098)	\$—	\$21,564

NOTE 11 COMMITMENTS AND CONTINGENCIES

11.1 Lease commitments

The Company's future minimum lease payments are as follows:

	Less than 1 year	1 to 5 years	Greater than 5 years	Total
Future minimum lease payments	\$1,697	\$2,876	\$234	\$4,807

11.2 Sales and purchase commitments

In the normal course of business, the Company and its subsidiaries enter into sales commitments with customers, and purchase commitments with suppliers. These commitments are for varying terms and can provide for fixed or variables prices. The Company believes that these contracts serve to reduce risk, and does not anticipate that losses will be incurred on these contracts.

11.3 Legal contingencies

The Company operates in a high technology and advanced engineering product environment in which many patents have been issued over time. The subsidiaries of the Company are currently, and may in the future become, involved in legal proceedings alleging patent infringement. At present, the Company is defending against patent infringement legal proceedings filed in Germany, the United Kingdom and China. Additionally, the Company has initiated proceedings to invalidate certain patents issued in these same jurisdictions.

There are many factors that make it difficult to estimate the impact of a particular lawsuit on the Company, including, among others, being in the early stage of a proceeding, the claimant is not required to specifically identify the manner in which the patent has allegedly been infringed; damages sought that are unspecified, unsupported, unexplained or uncertain; discovery not having been started or being incomplete; the complexity of the facts that are in dispute (e.g., the analysis of the patent and a comparison to the activities of the Company is a labor-intensive and highly technical process); the difficulty of assessing novel claims or legal arguments; and the parties not having engaged in any meaningful settlement discussions. Management is required to apply judgment with respect to estimating the potential impact of the ongoing patent litigation on the Company. Potential impacts to the Company include, but are not limited to, the possibility of an injunction prohibiting the Company from manufacturing, distributing, marketing or selling products that are found to infringe on an unexpired patent; potential damages, attorney's fees and costs that the Company could be ordered to pay if it is found to have infringed on a patent; and damage to the Company's reputation with key customers, or prospective customers, from a finding of patent infringement.

Of the various lawsuits initiated and underway, in March 2016, the German Court determined that certain of the Company's products infringed two expired patents of Rhodia Chimie ("Rhodia") (European patent #0735984 B1/Chinese patent #ZL 94194552.9 ("984/552") and European patent #0863846 B1/Chinese patent #ZL 96196505.3 ("846/505")) and management was ordered to provide information related to the calculation of damages. The Court also determined that certain of the Company's products infringe a third patent (European patent #0605274 ("274")). The Company filed an appeal in each of the three infringement actions and those appeals are still pending.

In September 2016, the German Federal Patent Review Court ruled in the Company's favor, invalidating 274 that it was previously found to infringe. Rhodia has appealed this judgment of invalidity, and its appeal is still pending. In October 2016, the German Federal Patent Court ruled on the Company's two other invalidity actions, significantly restricting the claims in one patent and slightly modifying the other. These two Court judgments are subject to ongoing appeals. With respect to these two expired patents for which the Company was found to infringe in Germany, specified damages being sought by Rhodia total approximately \$6 million. Management does not have sufficient information to comment on the quantum or methodology of the damages sought by Rhodia including with respect to the potential duplicity of the parts affected. Management has made an assessment, based on its interpretation of the claims as to the quantum of the appropriate provision. Such a provision is based on management's best estimate as damages are uncertain and are subject to judicial determination.

With respect to other ongoing proceedings, management's assessment, based on its interpretation of the claims the limited facts available at this time and independent legal advice, is that for other certain claims it is not probable that an outflow of resources will be required in settling these claims and no provision has been made. The cases for which no provisions has been made are still at the stage of pre-trial proceedings and management's assessment is based upon the information available to it currently. Future developments in these cases could cause management to change its assessment. These proceedings include:

<u>Patent Reference</u>	<u>Jurisdiction of Claim</u>	<u>Specified Damages by Claimant</u>
Chinese patent ZL 03817110.4	China	\$ 3.0 million
Chinese patent ZL 200710146613.6	China	\$ 2.3 million
European patent 0863846 B1	Germany	Not specified
Chinese patent ZL 94194552	China	\$ 0.8 million
Chinese patent ZL 96196505.3	China	\$ 6.8 million
Chinese patent ZL 97195463.1	China	\$ 0.8 million
European & UK patent 1444036 B1	UK	Not specified
Chinese patent ZL 028220781.1	China	Not specified
European & UK patent 1435338 B1	UK	Not specified
European & UK patent 1435338 B1	Germany	Not specified
European patent 0605274 B1	Germany	Not specified
European patent 0955267	Germany	Not specified

Management does not have sufficient information to comment on the quantum or methodology of the damages sought by the claimants including with respect to potential duplicity of the parts affected. Management's view on specified damages could be materially different than those proposed by the claimant in each case.

The Company intends to defend itself vigorously in all cases. In light of the inherent uncertainties in litigation there can be no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued for those cases for which an estimate can be made. Losses in connection with any litigation for which management is not presently able to reasonably estimate any potential loss, or range of loss, could be material to our results of operations and financial condition.

NOTE 12 SHARE CAPITAL

The share capital of the Company consists only of fully paid common shares with nominal par value. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the Company.

None of the Company's shares are held by any subsidiary or associate.

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Number of shares authorized for issue:	50,000,000	50,000,000
	common shares	common shares
Total common shares issued and fully paid	9,942,622	9,907,561
Total treasury shares	27,045	62,106

NOTE 13 EARNINGS PER SHARE

13.1 Basic earnings per share

The calculation of basic earnings per share was based on net income attributable to equity holders of the Company for the three and six months ended June 30, 2017. The weighted average number of shares outstanding is calculated as follows:

	<u>Three Months Ended June 30, 2017</u>	<u>Six Months Ended June 30, 2017</u>	<u>April 5 to June 30, 2016</u>
Common shares issued at beginning of period	9,942,622	9,907,561	—
Weighted average impact of:			
Issuance of common shares	—	—	1,000
Reissuance of common shares	—	21,889	—
Weighted average number of common shares for the period – basic	<u>9,942,622</u>	<u>9,929,450</u>	<u>1,000</u>

13.2 Diluted earnings per share

The calculation of diluted earnings per share was based on net income attributable to equity holders of the Company, and weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares calculated as follows:

	<u>Three Months Ended June 30, 2017</u>	<u>Six Months Ended June 30, 2017</u>	<u>April 5 to June 30, 2016</u>
Net income attributable to equity holders of Neo Cayman Holdings Ltd. – basic and diluted	<u>\$9,294</u>	<u>\$17,472</u>	<u>\$—</u>

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	April 5 to June 30, 2016
Weighted average number of common shares – basic	9,942,622	9,929,450	1,000
Dilutive effect of stock options	91,013	91,013	—
Weighted average number of common shares – diluted	10,033,635	10,020,463	1,000

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	April 5 to June 30, 2016
Earnings per share – basic	\$0.93	\$1.76	\$—
Earnings per share – diluted	\$0.93	\$1.74	\$—

NOTE 14 INCOME TAXES

The effective income tax rate can vary significantly from quarter-to-quarter for various reasons, including the mix and volume of business in different tax jurisdictions, in jurisdictions with tax holidays and tax incentives, and in jurisdictions for which no deferred tax assets have been recognized because management believed it was not probable that future taxable profit would be available against which tax losses and deductible temporary differences could be utilized. The Company's effective income tax rate can also vary due to the impact of foreign exchange fluctuations, operating losses, changes in provisions related to tax uncertainties and changes in management's assessment as to whether temporary differences arising from investments in subsidiaries will reverse in the foreseeable future.

During the second quarter of 2017, Chinese tax authorities approved the Group's request to claim certain income tax incentives for our Chinese subsidiaries that required meeting various conditions. The benefits of these tax incentives were not previously recognized, as it was not probable that the required conditions would be met. As a result of this approval, the Group recognized an income tax benefit of \$3.5 million in the second quarter of 2017 relating to 2016 and the first quarter of 2017.

NOTE 15 STOCK-BASED COMPENSATION

The Company has a management incentive plan through which options, Restricted Share Units (RSUs), Performance Stock Units (PSUs) and Special Performance Stock Units (Special PSUs) (collectively referred to as Stock Units) were granted to directors, officers, and employees on December 16, 2016, effective for service commencing on September 1, 2016. The Stock Units provide the right for these individuals to receive common shares or in the case of the options, purchase common shares. All Stock Units are exercisable for a period of 10 years from the grant date and can be exercised at any time within that period once vested, subject to the Company's regularly scheduled blackout periods. All Stock Units have a repurchase feature whereby the Company may repurchase the shares issued upon vesting of the Stock Units within six months from the vesting date. The Company does not have a past practice of repurchasing shares and therefore, the Stock Units have been accounted for as equity-settled share-based payments.

Options and RSUs vest at a rate of 25% per year but also vest immediately if a liquidity event occurs which is defined as consummation of a transaction or series of related transactions that results in Oaktree and its Affiliates ceasing to own at least 51% of the shares of the Company. PSUs vest in segments upon achieving certain shareholders' internal milestones.

	Options	RSUs	PSUs	Special PSUs
Outstanding, January 1, 2017	232,676	56,716	193,953	38,841
Granted	42,001	13,889	35,001	7,001
Outstanding, June 30, 2017	274,677	70,605	228,954	45,842
Exercisable, June 30, 2017	—	—	—	—
Weighted average exercise price, June 30, 2017	\$ 39.97	\$ —	\$ —	\$ —
Weighted average remaining contractual life, June 30, 2017	9.17 years	9.17 years	9.17 years	9.17 years
Outstanding, April 5, 2016	—	—	—	—
Granted	—	—	—	—
Outstanding, June 30, 2016	—	—	—	—
Exercisable, June 30, 2016	—	—	—	—
Weighted average exercise price, June 30, 2016	\$ —	\$ —	\$ —	\$ —
Weighted average remaining contractual life, June 30, 2017	—	—	—	—

The following table illustrates the inputs used in the measurement of the grant date fair values of the stock-based compensation plans granted during the periods ended June 30, 2017 and 2016:

	<u>Options</u>	<u>RSUs</u>	<u>PSUs</u>	<u>Special PSUs</u>
Valuation model and key assumptions at grant date:				
Grant date fair value	\$ 7.40	\$ 32.90	\$ 16.54	\$ 19.09
Dividend yield	—%	—%	—%	—%
Expected volatility	57.7%	57.7%	57.7%	57.7%
Risk-free interest rate	0.6%	0.6%	0.6%	0.6%
Share price	\$ 39.97	\$ 39.97	\$ 39.97	\$ 39.97
Forfeiture rate – service condition	—%	—%	—%	—%
Forfeiture rate – non-market condition				25.0%
<i>Non-market condition assumptions:</i>				
Probability of exit event occurring before March 31, 2018	52.5%	52.5%	—%	52.5%
Vesting period	1.6 years	1.6 years	—	1.6 years
<i>Market condition assumptions:</i>				
Probability of exit event occurring before December 31, 2018	—%	—%	75.0%	75.0%
Probability of exit event occurring after December 31, 2018	—%	—%	25.0%	25.0%
Expected life – exit event occurring before December 31, 2018	—	—	1.25 years	1.25 years
Expected life – exit event occurring after December 31, 2018	—	—	4.25 years	4.25 years
Vesting period	—	—	2 years	2 years
Valuation model and key assumptions at June 30, 2017:				
Forfeiture rate – service condition	—%	—%	—%	—%
Forfeiture rate – non-market condition				25.0%
<i>Non-market condition assumptions:</i>				
Probability of exit event occurring before March 31, 2018	57.5%	57.5%	—%	57.5%
Remaining vesting period	0.75 years	0.75 years	—	0.75 years
<i>Market condition assumptions:</i>				
Remaining vesting period	—	—	1.2 years	1.2 years

The following table shows the stock-based compensation expense recorded in the consolidated statements of profit or loss for the three and six months ended June 30, 2017 and June 30, 2016.

	<u>Successor</u>			<u>Predecessor</u>	
	<u>Three Months Ended</u>	<u>Six Months Ended</u>	<u>April 5 to</u>	<u>Three Months Ended</u>	<u>Six Months Ended</u>
	<u>June 30, 2017</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>	<u>June 30, 2016</u>
Options	\$ 485	\$1,490	—	—	—
RSUs	496	1,506	—	—	—
PSUs	528	1,635	—	—	—
Special PSUs	114	350	—	—	—
Total	\$1,623	\$4,981	\$—	\$—	\$—

NOTE 16 RELATED PARTY TRANSACTIONS

The Company's related parties are its joint ventures, associates, pension plans, directors and executive officers.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

16.1 Transactions with associates

On occasion, MQTJ will supply Magnequench Powders to TMT to produce rare earth magnetic compounds. MQTJ will then purchase these compounds back from TMT in its normal course of business. Keli processes rare earth oxides into metals for inclusion in Magnequench Powders.

For the three and six months ended June 30, 2017, the Company purchased \$0.6 million and \$0.9 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$12.8 million and \$26.3 million, and received services from GQD amounting to \$0.2 million and \$0.4 million, respectively.

For the three and six months ended June 30, 2017, the Company sold Magnequench Powders and performed services, respectively, amounting to \$0.7 million and \$1.3 million to TMT.

16.2 Predecessor transactions with related parties

For the three and six months period ended June 30, 2016, the Predecessor purchased \$nil and \$2.2 million of rare earth products from Molycorp Minerals, LLC (“MMLLC”) and the Predecessor sold \$0.1 million and \$0.1 million rare earth raw materials to MMLLC in the same period. There were no related party transactions with MMLLC in the three and six months period ended June 30, 2017.

Transactions between the Company and its related parties are summarized in the table below:

	Successor			Predecessor	
	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	April 5 to June 30, 2016	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Sale of goods and services to related parties	\$ 683	\$ 1,253	\$—	\$ 678	\$ 1,207
Purchase of goods and services from related parties	13,643	27,643	—	11,979	24,352
Corporate overhead charge-out	—	—	—	464	968
Interest expense	—	—	—	1,351	2,590
Interest income	—	—	—	1,741	3,445
				June 30, 2017	December 31, 2016
Trade balances:					
from associates				\$ 367	\$ 179
due to associates				(9,029)	(10,059)
Total				\$ (8,662)	\$ (9,880)

NOTE 17 DIRECTORS AND KEY MANAGEMENT COMPENSATION

The Company’s short-term employee benefits are as follows:

	Successor			Predecessor	
	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	April 5 to June 30, 2016	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Directors	\$ 55	\$ 110	\$—	\$ 129	\$ 258
Key Executive Management	632	1,566	—	933	1,966
Total	\$687	\$1,676	\$—	\$1,062	\$2,224

The Company’s post-employment benefits are as follows:

	Successor			Predecessor	
	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	April 5 to June 30, 2016	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Directors	\$—	\$—	\$—	\$—	\$—
Key Executive Management	1	7	—	2	4
Total	\$ 1	\$ 7	—	\$ 2	\$ 4

The Company’s stock-based compensation expenses are as follows:

	Successor			Predecessor	
	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	April 5 to June 30, 2016	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Directors	\$ 178	\$ 592	\$—	\$—	\$—
Key Executive Management	1,265	3,791	—	—	—
Total	\$1,443	\$4,383	—	\$—	\$—

NOTE 18 FINANCIAL RISK MANAGEMENT

In the normal course of operations, the Company is exposed to a number of different financial risks. These risk factors include market risks such as foreign exchange risk, interest rate risk, other price risk, as well as credit risk and liquidity risk.

18.1 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, equity prices and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to mitigate exposures within acceptable limits, while maximizing returns.

18.2 Foreign currency exchange risk

Foreign currency exchange risk refers to the fluctuation of financial commitments, assets, liabilities, income or cash flow due to changes in foreign exchange ("FX") rates. The Company conducts business transactions and owns assets in multiple countries; as a result, the Company is subject to fluctuations in respect of the currencies in which it operates. The Company's income is exposed to FX risk largely in the following ways:

- Translation of foreign currency denominated revenue and expenses into U.S. dollars, the currency in which the Company reports in – When the foreign currency changes in relation to the U.S. dollar, income reported in U.S. dollars will change. The impact of weakening foreign currency in relation to the U.S. dollar for foreign currency denominated revenue and expenses will result in higher net income because the Company has more foreign currency based expenses than revenue.
- Translation of foreign currency denominated debt and other monetary items – A weakening foreign currency in respect of the Company's foreign currency denominated debt will decrease the debt in U.S. dollar terms and generate a FX gain on bank advances and other short-term debt, which is recorded in income. The Company calculates FX on the short-term debt using the difference in FX rates at the beginning and at the end of each reporting period. Other foreign currency denominated monetary items will also be impacted by changes in FX rates.

The following table summarizes in U.S. dollar equivalents the Company's major currency exposures as of June 30, 2017:

	<u>Chinese Renminbi</u>	<u>Euro</u>	<u>USD</u>	<u>Thai Baht</u>	<u>Canadian Dollar</u>	<u>British Pound</u>
Cash and cash equivalents	\$ 8,711	\$ 1,562	\$11,590	\$1,140	\$ 882	\$ 561
Accounts receivable	1,056	1,008	2,366	1,025	—	—
Accounts payable and accrued liabilities	(3,781)	(6,324)	—	(607)	(266)	(507)
Net financial assets (liabilities)	\$ 5,986	\$(3,754)	\$13,956	\$1,558	\$ 616	\$ 54

The following table shows the impact of a one-percentage point strengthening or weakening of foreign currencies against the U.S. dollar as of June 30, 2017 for the Company's financial instruments denominated in non-functional currencies:

	<u>Chinese Renminbi</u>	<u>Euro</u>	<u>Thai Baht</u>	<u>Canadian Dollar</u>	<u>British Pound</u>
1% Strengthening					
Net earnings before tax	\$ 60	\$(38)	\$ 16	\$ 6	\$ 1
1% Weakening					
Net earnings before tax	(60)	38	(16)	(6)	(1)

The effect on profit or loss of a one-percentage point strengthening or weakening of U.S. dollar financial assets and liabilities held in non-U.S. dollar functional currency subsidiaries is \$0.1 million gain or loss, respectively.

18.3 Interest rate risk

This refers to the risk that future cash flows will fluctuate as a result of changes in market interest rates.

As at June 30, 2017, the Company has no outstanding bank loans and thus does not have significant exposure into interest rate fluctuations.

18.4 Credit risk

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result, create a financial loss for the Company. The Company has a credit policy that defines standard credit practice. This policy dictates that all new customer accounts are reviewed prior to approval, and establishes the maximum amount of credit exposure per customer. Credit worthiness and financial well-being of the customer is monitored on an ongoing basis.

The Company establishes an allowance for doubtful accounts as determined by management based on their assessment of collection, therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at June 30, 2017, the Company has an allowance for doubtful accounts of \$0.2 million. The provision for doubtful accounts, if any, is included in Selling, general and administrative expenses in the condensed consolidated statement of profit or loss, and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at June 30, 2017, the Company does not anticipate non-performance that would materially impact the Company's financial statements.

18.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure, as outlined in Note 19. It also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account the Company's sales and receipts and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves the Company's annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisitions and other major investments.

The following table reflects the contractual maturity of the Company's financial liabilities as at June 30, 2017:

Financial liabilities	1 year	2-3 years	4-5 years	Beyond 5 years	Total
Accounts payable and other accrued charges	45,691	—	—	—	45,691
Derivative liability*	—	—	—	9,746	9,746
Other liabilities	647	600	—	—	1,247
Total	\$46,338	\$600	\$—	\$9,746	\$56,684

* The fair value of the put option on shares of the remaining shareholder of Buss & Buss

NOTE 19 CAPITAL DISCLOSURES

The Company's objectives when managing its capital are:

- to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future growth of the business, both internally and by acquisition;
- to provide an adequate return to its shareholders;
- to manage capital in a manner that will maintain compliance with its financial covenants.

The Company defines its capital as follows:

- shareholders' equity;
- non-controlling interests;
- bank advances and other short-term debt; and
- long-term debt

The Company manages its capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as in the light of changes in economic conditions and the risk characteristics of the underlying assets. As well, the Company may issue new shares and/or new debt to replace existing debt. There are no assurances that these initiatives will be carried out.

In the management of capital, the Company has established quantitative return on capital criteria, and year-over-year sustainable earnings growth targets for the Company's divisions. These targets are monitored and reviewed on a quarterly basis by using a number of key financial metrics, including:

- return on capital employed ("ROCE"): operating income divided by average capital employed – ROCE is a key measurement of financial performance, focusing on cash and the efficient use of capital;
- net debt to capitalization, is net debt (the sum of long-term debt including the current portion and bank advances, less cash), divided by the sum of net debt, shareholders' equity and non-controlling interests.

Both of these metrics have no standardized meanings prescribed by IFRS and, therefore, are unlikely to be comparable to similar measures of other companies.

NOTE 20 SUBSEQUENT EVENTS

On September 12, 2017, OCM Neo Holdings (Cayman), L.P. ("OCM") formed Neo Performance Materials Inc. ("NewCo"), a company incorporated in the province of Ontario, for the purpose of completing a Cayman Islands scheme of arrangement with the Company and a subsequent public offering of the common shares of NewCo ("NewCo Shares").

NewCo filed a final prospectus on ●, 2017 with the securities commissions of each of the provinces and territories of Canada for an initial public offering by way of secondary offering of ● NewCo Shares held by OCM to the public at a price of C\$ ● per share (the "Offering"), subject to the terms of an underwriting agreement entered into between NewCo, the underwriters and OCM. Pursuant to the underwriting agreement, OCM granted the underwriters an over-allotment option, exercisable, in whole or in part, at any time prior to the 30th day after the closing of the Offering, to purchase from OCM that number of NewCo Shares equal to 15% of the NewCo Shares sold on the closing date of the Offering.

Prior to filing the final prospectus, NewCo intends to complete the Arrangement with the Company whereby NewCo will acquire all of the issued and outstanding shares of the Company in exchange for the issuance of an aggregate of 39,878,383 NewCo Shares. The acquisition by NewCo of the Company will be a transaction amongst entities under common control. NewCo intends to account for this transaction using book value accounting, based on the book values that would be recognized in the consolidated financial statements of the Company.

NEO CAYMAN HOLDINGS LTD.
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD FROM APRIL 5, 2016 (DATE OF INCORPORATION) TO DECEMBER 31, 2016



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Neo Cayman Holdings Ltd.

We have audited the accompanying consolidated financial statements of Neo Cayman Holdings Ltd., which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statement of profit or loss, comprehensive income (loss), changes in equity and cash flows for the period from April 5, 2016 (date of incorporation) to December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Neo Cayman Holdings Ltd. as at December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the period from April 5, 2016 (date of incorporation) to December 31, 2016 in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

November ● , 2017
Toronto, Canada

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

NEO CAYMAN HOLDINGS LTD.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(All figures in thousands of United States dollars)

	<u>December 31,</u> <u>2016</u>
ASSETS	
Current	
Cash and cash equivalents	\$ 79,408
Accounts receivable (Note 7)	39,168
Inventories (Note 8)	101,338
Income taxes receivable	1,321
Other current assets	<u>17,283</u>
Total current assets	<u>238,518</u>
Property, plant and equipment (Note 9)	87,818
Intangible assets (Note 10)	75,404
Goodwill (Note 11)	98,911
Investments (Note 12)	7,670
Deferred tax assets (Note 16)	3,209
Other non-current assets	<u>2,221</u>
Total non-current assets	<u>275,233</u>
Total assets	<u><u>513,751</u></u>
LIABILITIES AND EQUITY	
Current	
Bank advances and other short-term debt (Note 13)	7,925
Accounts payable and other accrued charges	57,387
Income taxes payable	4,823
Other current liabilities	<u>937</u>
Total current liabilities	<u>71,072</u>
Employee benefits (Note 19)	2,665
Derivative liability (Note 13)	9,654
Provisions (Note 21)	4,350
Deferred tax liabilities (Note 16)	21,310
Other non-current liabilities	<u>604</u>
Total non-current liabilities	<u>38,583</u>
Total liabilities	<u>109,655</u>
Non-controlling interest	6,260
Equity attributable to equity holders of Neo Cayman Holdings Ltd.	<u>397,836</u>
Total equity	<u>404,096</u>
Total liabilities and equity	<u><u>\$513,751</u></u>
Commitments and contingencies (Note 20)	
Subsequent events (Note 27)	

See accompanying notes

NEO CAYMAN HOLDINGS LTD.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(All figures in thousands of United States dollars, except per share information)

	April 5⁽¹⁾ to December 31, 2016
Revenue	\$135,312
Costs of sales	
Costs excluding depreciation and amortization	117,063
Depreciation and amortization	<u>4,048</u>
Gross profit	14,201
Expenses	
Selling, general and administrative	18,345
Depreciation and amortization	2,551
Research and development	<u>4,442</u>
	<u>25,338</u>
Operating loss	<u>(11,137)</u>
Other expense	(394)
Finance costs, net	(132)
Foreign exchange loss	<u>(709)</u>
Loss from operations before income taxes and equity income of associates	(12,372)
Income tax expense (Note 16)	<u>(423)</u>
Loss from operations before equity income of associates	(12,795)
Equity loss of associates (net of income tax) (Note 12)	<u>(169)</u>
Net loss	<u>\$ (12,964)</u>
Attributable to:	
Equity holders of Neo Cayman Holdings Ltd.	\$ (12,645)
Non-controlling interest	<u>(319)</u>
	<u>\$ (12,964)</u>
Loss per share data attributable to equity holders of Neo Cayman Holdings Ltd.:	
Basic and diluted (Note 18)	\$ (2.83)

(1) April 5, 2016 – date of incorporation of Neo Cayman Holdings Ltd.

See accompanying notes

NEO CAYMAN HOLDINGS LTD.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
(All figures in thousands of United States dollars)

	<u>April 5⁽¹⁾ to December 31, 2016</u>
Net loss for the period	<u>\$(12,964)</u>
Other comprehensive income (loss):	
Item that will not be reclassified to profit or loss:	
Defined benefit pension plan actuarial gain (net of tax expense of \$281)	440
Item that is or may be reclassified subsequently to profit or loss:	
Currency translation adjustment	<u>(6,449)</u>
Other comprehensive loss for the period	<u>(6,009)</u>
Total comprehensive loss for the period	<u>\$(18,973)</u>
Attributable to:	
Non-controlling interest	\$ (358)
Equity holders of Neo Cayman Holdings Ltd.	<u>(18,615)</u>
	<u>\$(18,973)</u>

(1) April 5, 2016 – date of incorporation of Neo Cayman Holdings Ltd.

See accompanying notes

NEO CAYMAN HOLDINGS LTD.
CONSOLIDATED STATEMENT OF CASH FLOWS
(All figures in thousands of United States dollars)

	April 5⁽¹⁾ to December 31, 2016
Operating activities	
Net loss for the period	\$(12,964)
Add (deduct) items not affecting cash:	
Depreciation and amortization	6,599
Acquired inventory fair value release (Note 8)	24,150
Allowance for doubtful accounts	34
Change in pension liability	(45)
Net finance costs	132
Equity loss of associates (Note 12)	169
Loss on disposal of property, plant and equipment (Note 9)	254
Loss on write-off of property, plant and equipment (Note 9)	168
Income tax expense (Note 16)	423
Foreign exchange loss	572
Other	(143)
Net change in non-cash working capital balances related to operations (Note 15)	(21,392)
Income taxes paid	(4,477)
Interest received, net of interest paid	5
Cash used in operating activities	<u>(6,515)</u>
Investing activities	
Additions of property, plant and equipment	(2,708)
Additions of intangible assets	(298)
Cash used in investing activities	<u>(3,006)</u>
Financing activities	
Net proceeds from bank advances and other short-term debt	577
Repurchase of common shares	(470)
Cash provided by financing activities	<u>107</u>
Effect of exchange rate changes on cash	<u>(1,499)</u>
Cash used during the period	<u>(10,913)</u>
Cash and cash equivalents, beginning of period	90,321
Cash and cash equivalents, end of period	<u>\$ 79,408</u>

(1) April 5, 2016 – date of incorporation of Neo Cayman Holdings Ltd.

See accompanying notes

NEO CAYMAN HOLDINGS LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All figures in thousands of United States dollars)

	Share Capital (authorized 50,000,000 common shares)		Retained Earnings	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains (net of tax)	Accumulated Other Comprehensive Income	Equity attributable to equity holders of Neo Cayman Holdings Ltd.	Non-controlling interest	Total Shareholders' equity
	Number	Amount								
Balance – April 5⁽¹⁾, 2016	—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Net loss	—	—	(12,645)	—	—	—	—	(12,645)	(319)	(12,964)
Other comprehensive income (loss)	—	—	—	(6,410)	440	(5,970)	(5,970)	(5,970)	(39)	(6,009)
Total comprehensive income (loss)	—	—	(12,645)	(6,410)	440	(5,970)	(5,970)	(18,615)	(358)	(18,973)
Acquisition through business combination (Note 6)	—	—	—	—	—	—	—	—	6,618	6,618
Issuance of common shares	9,888,147	10	—	416,911	—	—	—	416,921	—	416,921
Issuance of common shares from treasury	49,750	—	—	—	—	—	—	—	—	—
Repurchase and cancellation of common shares	(30,336)	—	—	(470)	—	—	—	(470)	—	(470)
	9,907,561	10	—	416,441	—	—	—	416,451	6,618	423,069
Balance – December 31, 2016	9,907,561	\$10	\$(12,645)	\$416,441	\$(6,410)	\$440	\$(5,970)	\$397,836	\$6,260	\$404,096

(1) April 5, 2016 – date of incorporation of Neo Cayman Holdings Ltd.

See accompanying notes

NEO CAYMAN HOLDINGS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Tabular figures in thousands of United States dollars, unless otherwise stated)

NOTE 1 NATURE OF OPERATIONS

Neo Cayman Holdings Ltd. (“Neo”, the “Company” or the “Group”) is domiciled in the Cayman Islands with its registered office at 27 Hospital Road, George Town, Grand Cayman KY1-9008. The Company has established itself as a global leader in the innovation and manufacturing of rare earth- and rare metal-based functional materials, which are essential inputs to high technology, high growth, future-facing industries. The Company has approximately 1,890 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States, Germany, Canada, Thailand and South Korea as well as two dedicated R&D centres in Singapore and the United Kingdom. Since 1994, Neo has leveraged its rare earth separation expertise to innovate and grow into a leading manufacturer of functional engineered materials for specialty end markets. This includes establishing the #1 global market position in bonded magnets, a top three global market position in auto emission control catalysts, the #1 global GaCl₃ producer for LEDs and growth opportunities into new end markets such as wastewater treatment. The Company is organized along three business segments: Magnequench, Chemicals and Oxides (“C&O”), and Rare Metals.

Magnequench

The Magnequench segment, with over thirty years of manufacturing experience, is the world leader in the production of magnetic powders used in bonded and hot deformed fully dense NdFeB magnets. These powders are formed through Magnequench’s market-leading technology related to the development, processing and manufacturing of magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of REOs as the primary input. These powders are used in the production of bonded permanent magnets that are components in automotive motors, micro motors, traction motors, sensors and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

C&O

The C&O segment manufactures and distributes a broad range of light and heavy rare earth functional materials that have become an indispensable part of modern life. Neo’s world-class rare earth processing and materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered materials. Applications from these products include auto and light-duty vehicle catalysts, consumer electronics, petroleum refining, hybrid and electric vehicles and wastewater treatment.

Rare Metals

The Rare Metals segment sources, reclaims, produces, refines and markets high value metals and their compounds. These products include both high temperature metals (tantalum, niobium, hafnium and rhenium) and electronic metals (gallium and indium). Applications from products made in this segment primarily include superalloys for jet engines, medical imaging, wireless technologies and LED lighting. Other applications include their use in flat panel displays, solar, steel additives, batteries and electronics applications.

Corporate Offices

Neo’s head office is in Toronto, Ontario, Canada, with additional corporate offices in Greenwood, Colorado, U.S. and Beijing, China. The functions of this group include finance, administration, information technology, accounting and legal.

NOTE 2 GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

These consolidated financial statements as at and for the period from April 5, 2016 (date of incorporation) to December 31, 2016 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements for the period from April 5, 2016 (date of incorporation) to December 31, 2016 were approved and authorized for issue by the Company’s Board of Directors on [*].

NOTE 3 BASIS OF PREPARATION

On June 25, 2015 (the “Petition Date”), Molycorp, Inc., together with certain of its subsidiaries (collectively, “Molycorp”), filed voluntary petition for reorganization under chapter 11 of Title 11 of the United States Bankruptcy Code (the “Chapter 11 Cases”) in the United States Bankruptcy Court for the District of Delaware (the “Court”). On August 31, 2016, pursuant to the terms of the Fourth Joint Amended Plan of Reorganization, certain subsidiaries of Molycorp emerged from bankruptcy (the “Reorganization”). The newly reorganized business is comprised of a number of operating subsidiaries organized under a holding company, Neo Cayman, which is ultimately controlled by Oaktree Capital Management L.P. As a result of the reorganization, the Company acquired certain subsidiaries of Molycorp representing downstream business operations denominated Neo Performance Materials Operations. As further described in Note 6, the reorganization from bankruptcy of the Neo Performance Materials Operations was accounted for using IFRS 3 – Business Combinations to account for the transfer of ownership of the downstream Neo Performance Materials Operations businesses to Neo Cayman.

These consolidated financial statements for the period ended December 31, 2016 have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1 Overall considerations

These consolidated financial statements have been prepared using accounting policies specified by those IFRSs as issued by the IASB that are in effect at the end of the reporting period December 31, 2016.

The significant accounting policies that have been applied in the preparation of these consolidated financial statements are summarized below.

4.2 Basis of Consolidation

4.2.1 Business Combinations

Business combinations are accounted for using the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statements of financial position at their fair values, which are also used as the basis for subsequent measurement in accordance with the Company's accounting policies. Non-controlling interest is measured at the fair value of the identifiable assets and liabilities acquired. Goodwill represents the excess of the fair value of the consideration transferred over the fair value of the identifiable net assets of the acquiree at the date of acquisition.

Acquisition-related costs paid to third parties are expensed as incurred unless they are costs related to the issuance of debt or equity instruments. Debt issuance costs are accounted for as a deduction in the carrying value of the related debt instrument and amortized as a finance charge over the term of the debt, and equity issuance costs are accounted for as a deduction from share capital.

4.2.2 Subsidiaries and associates

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests ("NCI") arise from business combinations in which the Company acquires less than 100% interest. NCI is initially measured at the fair value of the acquiree's identifiable net assets at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary NCI.

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

An associate is an entity over which the Company has significant influence, but does not have control, or joint control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

Subsequent to initial recognition, the consolidated financial statements include the Company's share of the profit or loss and other comprehensive income (loss) ("OCI") of associates.

When Neo's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to zero and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Changes resulting from the net income or loss generated by the associates are reported within Equity income of associates in the consolidated statement of profit or loss.

Outlined below is information related to the Company's subsidiaries and associates at December 31, 2016:

	<u>Place of business</u>	<u>Entity type</u>	<u>Economic interest</u>	<u>Method</u>
Neo Performance Materials ULC	Canada	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides LLC	United States	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides (Europe) Ltd.	United Kingdom	Subsidiary	100%	Consolidation
Neo Rare Metals Korea Inc.	Korea	Subsidiary	80%	Consolidation
Neo International Corp.	Barbados	Subsidiary	100%	Consolidation
Jiangyin Jiahua Advanced Materials Resources Co., Ltd.	China	Subsidiary	95%	Consolidation
MCP Holdings Canada ULC	Canada	Subsidiary	100%	Consolidation
Neo Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Neo Performance Materials (Singapore) Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Zibo Jiahua Advanced Materials Resources Co., Ltd.	China	Subsidiary	95%	Consolidation
NPM Silmet AS	Estonia	Subsidiary	100%	Consolidation
Magnequench Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Shanxi Jiahua Galaxy Electronic Materials Co., Ltd.	China	Subsidiary	60%	Consolidation
Magnequench (Korat) Co., Ltd.	Thailand	Subsidiary	100%	Consolidation
Zibo Jia Xin Magnetic Materials Ltd.	China	Subsidiary	100%	Consolidation
Neo Rare Metals (Utah), LLC	United States	Subsidiary	100%	Consolidation
NPM Holding (US), Inc.	United States	Subsidiary	100%	Consolidation
NMT Holdings GmbH	Germany	Subsidiary	100%	Consolidation
Buss & Buss Spezialmetalle GmbH	Germany	Subsidiary	50%	Consolidation
Neo Rare Metals (Oklahoma), LLC	United States	Subsidiary	80%	Consolidation
Jiangyin Kidokoro Glass Manufacture Co., Ltd.	China	Subsidiary	50%	Consolidation

	Place of business	Entity type	Economic interest	Method
Magnequench, LLC	United States	Subsidiary	100%	Consolidation
Magnequench Neo Powders Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Magnequench International, LLC	United States	Subsidiary	100%	Consolidation
Xin Bao Investment Limited	Hong Kong	Subsidiary	100%	Consolidation
Magnequench (Tianjin) Company Limited	China	Subsidiary	100%	Consolidation
Magnequench Limited	Barbados	Subsidiary	100%	Consolidation
Neo Performance Materials (Beijing) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench International Trading (Tianjin) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench GmbH	Germany	Subsidiary	100%	Consolidation
Neo Performance Materials Korea Inc.	Korea	Subsidiary	100%	Consolidation
Neo US Holdings, Inc.	Canada	Subsidiary	100%	Consolidation
Neo Magnequench Distribution, LLC	United States	Subsidiary	100%	Consolidation
Toda Magnequench Magnetic Material (Tianjin) Co., Ltd.	China	Joint venture	33%	Equity method
Gan Zhou Ke Li Rare Earth New Material	China	Joint venture	25%	Equity method
GQD Special Material (Thailand) Co., Ltd.	Thailand	Joint venture	20%	Equity method

4.2.3 Transactions eliminated on consolidation

Inter-company transactions, balances, and any unrealized income and expenses arising from transactions between group companies are eliminated. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Company's interest in the associates. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

4.3 Functional currency

The consolidated financial statements are presented in United States dollars ("U.S. dollars" or "USD"), which is the functional currency of the Company. The functional currency of the Group's significant subsidiaries are the currencies of the primary economic environment and the business processes of the subsidiaries and include USD, Chinese Renminbi and Japanese Yen. The subsidiaries with functional currencies other than U.S. dollars are: Jiangyin Jia Hua Advanced Material Resources Co., Ltd. ("JAMR"); Neo Japan, Inc. ("Neo Japan"); Magnequench International Trading (Tianjin) Co., Ltd; Magnequench (Tianjin) Company Limited, and Shanxi Jia Hua Galaxy Electronics Materials Co., Ltd.

4.3.1 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

4.3.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into U.S. dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the U.S. dollars at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Company disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Company disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

4.4 Segment reporting

Neo's reporting segments are determined based on the Company's product lines, which are the basis on which the Company's chief operating decision maker evaluates the performance of the business. The Company operates within three principal segments – C&O, Magnequench and Rare Metals. Discrete operating and financial information is available for these principal segments and is used to determine operating performance for each segment and to allocate resources.

Each of the operating segments is managed separately as each of these product lines requires different technologies, resources and marketing approaches. All inter-segment transactions between the segments have been eliminated on consolidation.

4.5 Revenue recognition

Revenue is comprised of the sale of goods and the rendering of services.

Revenue is measured at the fair value of the consideration received or receivable from the sale of goods, net of intercompany sales, value-added tax, and estimated customer returns and allowances at the time of recognition. The estimates of fair value are based on the Company's historical experience with each customer and the specifics of each arrangement.

Revenue from the sale of manufactured products is recognized when the risks and rewards of ownership have transferred to the buyer (which generally occurs upon shipment) and collectability of the related receivables is probable. Revenue is recognized when: (i) it can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; (iii) the costs incurred or to be incurred can be measured reliably and; (iv) when the criteria for each of the Company's different activities has been met. These activity-specific recognition criteria are based on the goods or services provided to the customer and the contract conditions in each case.

4.6 Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin.

4.7 Goodwill

Under the acquisition method of accounting, the costs of business combinations are allocated to the assets acquired and liabilities assumed based on the estimated fair value at the date of acquisition. The excess of the fair value of consideration paid over the fair value of the identifiable net assets acquired is recorded as goodwill. Goodwill is not amortized; instead it is tested for impairment on an annual basis and is carried at cost less accumulated impairment losses.

At the date of acquisition, goodwill is assigned to the Cash Generating Unit ("CGU") or group of CGUs that is expected to benefit from the synergies of the business combination. For the purpose of impairment testing, goodwill is allocated to the Company's operating segments, which are the individual divisions and corresponds to the level at which goodwill is internally monitored by the Chief Operating Decision Maker ("CODM"). The recoverable amount of an operating segment or CGU, is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. A goodwill impairment is recognized for any excess of the carrying amount of the CGU (or group of CGUs) over its recoverable amount.

Goodwill impairment charges are recognized in profit or loss and are not reversible in future periods.

4.8 Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives on a straight-line basis, ranging from 4 to 40 years for buildings and 2 to 20 years for machinery and equipment. As no finite useful life for land can be determined, related carrying amounts are not depreciated. Consistent with IAS 16, "significant components" with different useful lives from the original asset purchased or constructed are identified and depreciated using a representative useful life. Generally, maintenance and repairs are charged to expense as incurred. However, "major overhauls and replacements" are capitalized to the statement of financial position as a separate component, with the replaced part or previous overhaul derecognized from the statement of financial position and recorded in the statement of profit or loss.

Construction in progress is not depreciated until put into use. Costs are only capitalized if the cost is directly attributable to the construction or development of the assets and may include:

- costs of employee benefits arising from the construction or acquisition of the item of property, plant and equipment;
- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- professional fees.

Reviews for impairment of properties in production and under development are conducted on an at least annual basis to determine indications that the carrying amount exceeds the recoverable amount. The carrying values of property, plant and equipment, which exceed their recoverable amounts, are written down to their recoverable amount and are recognized in the consolidated statements of profit or loss (see impairment section below).

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in the consolidated statement of profit or loss within other income or expense.

4.9 Intangible assets

Intangible assets acquired by way of an asset acquisition or business combination are recognized if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition. Neo's intangible assets consist primarily of license agreements, customer relationships and trade name. Upon acquisition, customer relationships and license agreements are measured initially at fair value and are amortized on a straight-line basis over the period of the associated agreement or legal title: 5 years for license agreements and

15 years for customer relationship. Amortization has been included within depreciation and amortization expenses in the consolidated statement of profit or loss. For any trade name with an indefinite life, its initial fair value recorded at acquisition will not be amortized but will be reviewed for impairment on an annual basis.

Reviews for impairment of definite life intangible assets are conducted whenever facts or circumstances indicate that the carrying amount may exceed its recoverable amount.

4.10 Leases

Leases are classified as finance leases if the Company bears substantially all risks and rewards of ownership of the leased asset. At the inception of the lease, the related asset is recognized at the lower of fair value and the present value of the minimum lease payments and a corresponding amount is recognized as a finance lease obligation. Lease payments are split between finance charges and the reduction of the finance lease obligation to achieve a constant proportion of the capital balance outstanding. Finance charges are charged to net income over the lease term.

All other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the term of lease term.

4.11 Impairment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows. As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit (“CGU”) level.

Goodwill is allocated to CGUs or groups of CGUs for impairment testing purposes based on the level at which management monitors it, which is not higher than an operating segment. The allocation is made to those CGUs or group of CGUs that are expected to benefit from synergies of the related business combination in which the goodwill arises.

Corporate head office assets and expenses are proportionately allocated to CGUs or groups of CGUs based on revenues.

CGUs, to which goodwill has been allocated, are tested for impairment at least annually and whenever there is an indication that the unit may be impaired. This testing is done by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell.

To determine the value-in use, management estimates expected future cash flows from each CGU and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company’s latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each CGU and reflect their respective risk profiles as assessed by management.

Impairment losses for a CGU are first allocated to reduce the carrying amount of goodwill allocated to that CGU and the remainder is allocated to other assets of the unit on a pro rata basis. Goodwill impairment losses are not reversed.

Non-financial assets with finite lives are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, non-financial assets that are not amortized are subject to an annual impairment assessment. Any impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate. The Company evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration.

4.12 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

4.12.1 Financial assets

For the purpose of subsequent measurement, non-derivative financial assets are classified into the following categories upon initial recognition:

- Loans and receivables;
- Financial assets at fair value through profit or loss;
- Available-for-sale financial assets; or
- Held-to-maturity financial assets.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

4.12.1.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company's trade and other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counter party and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables are presented within selling, general & administrative expenses.

4.12.1.2 Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The Company may designate financial assets as fair value through profit or loss based on the nature and timing of when those financial assets may be settled. Financial assets which management holds the ability to settle in cash within the near term (1 year) are usually designated as fair value through profit or loss. Examples include, but are not limited to: cash, investments in short term money market funds, bankers' acceptance notes and derivative instruments. Designating financial assets of this nature as fair value through profit or loss will significantly reduce recognition inconsistencies by capturing gains and losses in the period which they occurred.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

4.12.1.3 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Assets in this category are measured at fair value with gains or losses recognized in OCI, unless the asset is impaired in which case the losses are recognized in profit or loss.

4.12.2 Financial liabilities

The Company's financial liabilities include borrowings, trade, and other payables.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

All derivative financial liabilities that are not designated and effective as hedging instruments are accounted for at fair value through the consolidated statements of profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the consolidated statements of profit or loss are included within Finance costs, net.

4.13 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using a weighted-average formula. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value.

4.14 Income taxes

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

4.14.1 Current tax

Current tax for each taxable entity is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods. Current tax assets and liabilities are offset only if certain criteria are met.

4.14.2 Deferred tax

Deferred tax is recognized using the balance sheet method in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below.

- Where the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss;

- In respect of taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax assets and unused tax losses can be utilized. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are offset only if certain criteria are met.

4.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. Cash equivalents may also include bank notes, as well as short-term money market instruments with terms of maturity less than three months at the date of acquisition, which can be immediately converted into cash upon acquisition.

4.16 Employee future benefits

The Company provides post-employment benefits through defined benefit plans and defined contribution plans.

4.16.1 Defined benefit plan

The defined benefit plans sponsored by the Company defines the amount of pension benefit that an employee will receive on retirement by reference to length of service and final salary.

Pension and other post-retirement benefits earned by employees are actuarially determined on an annual basis by independent actuaries using the projected unit credit method and based on assumptions such as the expected return on plan assets, retirement ages of employees and expected health care trend rate. Fair value is used to value the plan assets for the purpose of calculating the expected return on plan assets. Actual results may differ from results which are estimated based on assumptions. Past service cost arising from plan amendments are recognized immediately in the consolidated statement of profit or loss.

The asset or liability recognized in the consolidated statements of financial position is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses are recognized in other comprehensive income in the period incurred.

4.16.2 Defined contribution benefits

A defined contribution plan is a pension plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. Payments to defined contribution plans are expensed in the statement of profit or loss in the period during which services are rendered by employees.

4.17 Stock-based compensation

Directors, officers and employees of the Company receive remuneration in the form of share-based payments, whereby these individuals render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an option pricing model. That cost is recognized in Stock-based compensation expense, together with a corresponding increase in equity (Contributed surplus), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

4.18 Significant management judgment in applying accounting policies

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

4.18.1 Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's expectation of future profitability by legal entity adjusted for significant non-taxable income and expenses as well as limits to the use of loss carryforwards or other tax credits. If a positive forecast of taxable income indicates the probable future use of a deferred tax asset, it is usually recognized in full. Recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

4.18.2 Impairment

An impairment loss is recognized for the amount by which an asset's or CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each asset or CGU and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

4.18.3 Business combinations

On initial recognition, the identifiable assets and liabilities of the acquired business are included in the consolidated statements of financial position at their fair values. In measuring fair value management uses estimates about future cash flows and discount rates. Any measurement changes from initial recognition would affect the measurement of goodwill.

4.18.4 Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At December 31, 2016, management assessed that the useful lives represented the expected utility of the assets to the Company.

4.18.5 Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the time the estimates are made. The Company's core business is subject to changes in foreign policies and internationally accepted metal prices which may cause selling prices to change rapidly.

4.18.6 Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Timing or amount of the outflow may still be uncertain. Management estimates the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

4.18.7 Defined benefit pension liability

Management estimates the defined benefit pension liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of the defined benefit pension liability is based on estimated retirement ages, medical cost trends and mortality. It also takes into account the Company's specific anticipation of future salary increases. Discount factors are determined based on matching the plan's projected cash flow with the independent actuaries' Discount Yield Curve. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future estimates of the Company's defined benefit pension obligations.

4.18.8 Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes to these financial statements regarding financial assets and liabilities. In applying the valuation techniques management makes use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

4.18.9 Stock-based compensation

The Company measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most

appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield, forfeiture rate and expectations regarding achievement of market conditions and related timing of such achievement. Such assumptions are inherently uncertain and changes in these assumptions affect the fair value estimates.

NOTE 5 RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements in 2016

The following accounting pronouncements issued by the IASB were not effective for the Company as of December 31, 2016 and therefore have not been applied in preparing these consolidated financial statements. The Company intends to adopt these standards, if applicable, when they become effective.

IAS 7 – Statement of Cash Flows

On January 7, 2016, the IASB released amendments to IAS 7 – Statement of Cash Flows (“**IAS 7**”). IAS 7 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. IAS 7 will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9 (2014) (“**IFRS 9**”). IFRS 9 provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently assessing the potential impact of this standard; however, based on initial assessment, the Company does not expect the adoption of this standard to have a material impact on the classification and measurement of its financial assets and liabilities in its consolidated financial statements. With respect to impairment of financial assets, the Company has commenced assessing the potential impact and expects to complete the assessment and the implementation in the fourth quarter of 2017.

IFRS 15 – Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 (“**IFRS 15**”). IFRS 15 will replace IAS 18 – Revenue, IAS 11 – Construction Contracts and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall in the scope of other IFRS standards. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities. IFRS 15 is to be applied on either a full or modified retrospective approach and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet determined the effect of the standard on its current policies and has not yet selected a transition method under the standards. The Company has commenced its assessment to determine which segments and revenue streams will be impacted. In addition, transition options and choice of practical expedients will be assessed and determined. The Company expects to complete the assessment and implementation in the fourth quarter of 2017. The Company expects to disclose additional detailed information, including its transition method, any practical expedients elected and estimated quantitative financial effects prior to the adoption of IFRS 15.

IFRS 16 – Leases

On January 13, 2016 the IASB issued IFRS 16 – Leases (“**IFRS 16**”). IFRS 16 supersedes IAS 17 – Leases, IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC-15 – Operating Leases – Incentives and SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. IFRS 16 has an effective date of January 1, 2019, with early application permitted only if IFRS 15 has also been adopted. Management is currently assessing the impact of this standard on its consolidated financial statements and expects to complete the assessment in the first half of 2018.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

On December 8, 2016, the IASB issued IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration (“**IFRIC 22**”). IFRIC 22 is applicable for annual periods beginning on or after January 1, 2018, and permits early adoption. IFRIC 22 clarifies which date should be used for translation when a foreign currency transactions involves an advance payment or receipt. IFRIC 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it)

is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Company intends to adopt this standard in its consolidated financial statements for the annual period beginning on January 1, 2018. The Company has commenced assessing its potential impact and expects to complete the assessment in the fourth quarter of 2017.

Annual Improvement to IFRS Standards (2014 – 2016) Cycle

On December 8, 2016 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. Each of the amendments has its own specific transition requirements and effective date.

Amendments were made to the following standards:

- Clarification that IFRS 12 Disclosures of Interests in Other Entities also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017;
- Removal of out-dated exemptions for first time adopters under IFRS 1 First-time Adoption of International Financial Reporting Standards, effective for annual periods beginning on or after January 1, 2018; and
- Clarification that the election to measure an associate or joint venture at fair value under IAS 28 Investments in Associates and Joint Ventures for investments held directly, or indirectly, through a venture capital or other qualifying entity can be made on an investment-by-investment basis. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2018.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2017 or 2018 as applicable. The Company does not expect the amendments to have a material impact on the financial statements.

NOTE 6 BUSINESS COMBINATION

On August 31, 2016, pursuant to the Fourth Joint Amended Plan of Reorganization, Neo Cayman Holdings Ltd. acquired control of the downstream business of Molycorp, in exchange for the partial satisfaction of allowed claims valued at \$416.9 million.

As a result of the reorganization, the Company has applied IFRS 3 – Business Combinations to account for the transfer of ownership of the downstream Neo businesses to Neo Cayman Holdings Ltd.

The final allocation of the total purchase price of \$416.9 million is shown below:

Working capital, including:	
Cash and cash equivalents	\$ 90,321
Accounts receivable	35,020
Inventories	126,087
Income taxes receivable	1,321
Other current assets	20,118
Accounts payable and other accrued charges	(76,707)
Income taxes payable	(4,228)
Provisions	(4,350)
Other current liabilities	(877)
Property, plant and equipment	91,882
Intangible assets	78,200
Goodwill	100,736
Deferred tax assets	286
Investments	7,839
Other non-current assets	2,306
Bank advances and other short-term debt	(7,689)
Deferred tax liabilities	(23,290)
Employee benefits	(3,443)
Derivative liability	(9,502)
Other non-current liabilities	(491)
Non-controlling interest	(6,618)
Total	\$416,921

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Property, plant and equipment

Market comparison technique and cost technique: The valuation model considers quoted market process for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as economic obsolescence.

Intangible assets

The multi-period excess earnings method: The fair value of customer relationships was calculated based on the present value of net cash flows expected to be generated by the customer relationships, excluding any cash flows related to contributory assets.

Inventories

Market comparison technique: The fair value was determined based on the estimated selling price in the ordinary course of business less the estimated cost of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Goodwill associated with the acquisition of the downstream business of Molycorp, Inc. arose primarily because of the Company's proven leadership in the development, processing, and distribution of technically advanced rare earth products; exposure to the world's largest and fastest-growing rare earths consuming markets, China; deferred tax liabilities; and expected synergies that do not qualify for separate recognition. The goodwill is not amortized and is not deductible for tax purposes.

NOTE 7 ACCOUNTS RECEIVABLE

	December 31, 2016
Gross trade receivables	\$39,324
Allowance for doubtful accounts	(156)
Accounts receivable	<u>\$39,168</u>

The table below illustrates the aging of accounts receivable which are past due:

	December 31, 2016
Less than three months	\$4,963
More than three months but less than six months	272
More than six months but less than one year	—
More than one year	11
Total	<u>\$5,246</u>

All of the Company's accounts receivable are short-term. The net carrying value of accounts receivable is considered a reasonable approximation of fair value. The Company reviews all amounts periodically for indicators of impairment and the amounts impaired have been provided for in the allowance for doubtful account.

The Company's exposure to credit risks and impairment losses related to accounts receivable is disclosed in Note 25.

NOTE 8 INVENTORIES

Inventories, stated at the lower of weighted-average cost or net realizable value, consist of the following:

	December 31, 2016
Raw materials	\$ 30,163
Work-in-progress	17,474
Finished goods	47,707
Supplies	5,994
Total	<u>\$101,338</u>

The cost of finished goods manufactured includes appropriate materials, labour and production overhead expenditure.

For the period ended December 31, 2016, \$24.2 million of the fair value increments related to the inventory acquired through the business combination disclosed in Note 6 were released and recorded in cost of sales in the consolidated statement of profit or loss.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

	Land	Building & improvements	Machinery & Equipment	Office equipment	Construction in Progress (net of transfer)	Total
At April 5, 2016						
Cost	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Accumulated depreciation	—	—	—	—	—	—
Opening net book value at April 5, 2016	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Acquisition through business combination (Note 6)	3,150	33,776	48,976	2,964	3,016	91,882
Additions	—	60	271	78	2,299	2,708
Disposals, net of cost and accumulated depreciation	—	(100)	(94)	(60)	—	(254)
Transfers	—	520	1,945	23	(2,488)	—
Currency translation adjustments	—	(290)	(805)	(40)	(16)	(1,151)
Write-offs	—	—	—	—	(168)	(168)
Depreciation expense	—	(1,181)	(3,999)	(19)	—	(5,199)
Closing net book value at December 31, 2016	<u>\$3,150</u>	<u>\$32,785</u>	<u>\$46,294</u>	<u>\$2,946</u>	<u>\$ 2,643</u>	<u>\$87,818</u>
Comprised of:						
Cost	\$3,150	\$33,640	\$49,628	\$2,968	\$ 2,643	\$92,029
Accumulated depreciation	—	(855)	(3,334)	(22)	—	(4,211)

NOTE 10 INTANGIBLE ASSETS

The Company's intangible assets consist primarily of customer relationships, license agreements and trade name. The following table illustrates the net book value of the Company's intangible assets:

	Customer Relationships	License agreements	Tradename	Total
At April 5, 2016				
Cost	\$ —	\$ —	\$ —	\$ —
Accumulated amortization	—	—	—	—
Opening net book value at April 5, 2016	\$ —	\$ —	\$ —	\$ —
Acquisition through business combination (Note 6)	71,982	218	6,000	78,200
Additions	—	298	—	298
Currency translation adjustments	(1,694)	—	—	(1,694)
Amortization expense	(1,345)	(55)	—	(1,400)
Closing net book value at December 31, 2016	<u>\$68,943</u>	<u>\$461</u>	<u>\$6,000</u>	<u>\$75,404</u>
Comprised of:				
Cost	\$70,288	\$516	\$6,000	\$76,804
Accumulated amortization	(1,345)	(55)	—	(1,400)

NOTE 11 GOODWILL

	December 31, 2016
Opening balance – April 5, 2016	\$ —
Acquisition through business combination (Note 6)	100,736
Currency translation adjustments	(1,825)
Ending balance	<u>\$ 98,911</u>

Goodwill is allocated to the following group of CGUs for the purpose of annual impairment testing:

	December 31, 2016
Magnequench	\$65,998
C&O	16,627
Rare Metals	16,286
Total goodwill allocated	<u>\$98,911</u>

On December 31, 2016, the Company performed goodwill impairment testing for all of its divisions in accordance with its policy and based on conditions at that date. The recoverable amounts of the group of CGUs were determined on the basis of value-in-use, covering a detailed cash

flow forecast based on the five-year budget. The forecasted cash flows are then discounted to calculate the present value of the cash flows expected to be derived from the group of CGUs that are being tested for impairment annually. This approach involves estimates and assumptions about revenue growth rates, operating margins, tax rates and discount rates.

No impairment existed in the Magnequench, C&O, and Rare Metals group of CGUs.

NOTE 12 INVESTMENTS

The Company holds a 25% ownership interest in Ganzhou Keli Rare Earth New Material Co., Ltd. (“Keli”), a company which converts rare earth oxides into metals for use in Magnequench Powders.

The Company also holds a 33% investment in Toda Magnequench Magnetic Materials Co. Ltd. (“TMT”), which produces rare earth magnetic compounds with Magnequench Powders supplied by Magnequench (Tianjin) Company Limited (“MQTJ”) in its normal course of business.

<u>Name</u>	<u>Country of Incorporation or Registration</u>	<u>Percentage Share Holdings</u>
Keli	China	25%
TMT	China	33%

Aggregate financial information of equity accounted associates as at December 31, 2016 and for the period from August 31, 2016 (Emergence date) to December 31, 2016 is provided below:

	<u>TMT</u>	<u>Keli</u>	<u>Total</u>
Total revenue	\$1,261	\$71,848	\$73,109
Share of revenue in associates	416	17,962	18,378
Net loss	(163)	(462)	(625)
Share of loss in associates	(54)	(115)	(169)
	<u>TMT</u>	<u>Keli</u>	<u>Total</u>
Current assets	\$4,218	\$82,975	\$87,193
Non-current assets	1,932	3,323	5,255
Total assets of associates	\$6,150	\$86,298	\$92,448
Current liabilities	\$ 993	\$63,180	\$64,173
Total liabilities of associates	\$ 993	\$63,180	\$64,173

Investments accounted for using the equity method are as follows:

	<u>TMT</u>	<u>Keli</u>	<u>Total</u>
Carrying value at April 5, 2016	\$ —	\$ —	\$ —
Acquisition through business combination (Note 6)	1,842	5,293	7,135
Share of results in associates	(54)	(115)	(169)
Carrying value at December 31, 2016	\$1,788	\$5,178	\$6,966

Other investments include a \$0.7 million investment in QGD Special Material (Thailand) Co., Ltd. (“GQD”), a company which converts rare earth oxides into metals for use in Magnequench Powders.

NOTE 13 CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts presented in the consolidated statements of financial position relate to the following categories of financial assets and liabilities:

<u>Financial Assets</u>	<u>December 31, 2016</u>
Loans and Receivables	
Trade receivables	\$ 39,168
Fair value through profit or loss	
Cash and cash equivalents	79,408
Total financial assets	\$118,576

	December 31, 2016
Financial Liabilities	
Fair value through profit or loss	
Put option issued to non-controlling interest of Buss & Buss (Derivative liability)	\$ 9,654
Measured at amortized cost	
Current:	
Accounts payable and other accrued charges	57,387
Bank advances and other short-term debt	7,925
	<u>65,312</u>
Total financial liabilities	<u>\$74,966</u>

13.1 Derivative liability

As at December 31, 2016, the Company's derivative liability is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss Spezialmetalle GmbH ("Buss & Buss"). The derivative is measured at fair value.

	Buss & Buss put option
Fair value, April 5, 2016	\$ —
Acquisition through business combination (Note 6)	9,502
Movement in fair value during the period	152
Fair value, December 31, 2016	<u>\$9,654</u>

The Buss & Buss put option is related to a share purchase agreement ("SPA") between NMT Holding GmbH, a German subsidiary of the Company, and the shareholders of Buss & Buss entered into May 27, 2010. The SPA includes a call and a put option on shares of the remaining shareholder and his legal successors. If the call option is exercised by the Company, a premium is added to the consideration to purchase the underlying shares in Buss & Buss. If the put option is exercised by the remaining shareholder or his legal successors, a discount will reduce the cost basis of the securities sold to the Company. Although, the final amount of the put option is not known, the initial fair value of this obligation has been determined by a third party valuator based on information currently available. The liability is subsequently re-measured at each reporting period with the change in fair value recorded in consolidated statement of profit or loss.

13.2 Financial assets and liabilities measured at fair value

The following table presents financial assets and liabilities measured at fair value in the consolidated statements of financial position in accordance with the fair value hierarchy. It does not include financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the consolidated statements of financial position as at December 31, 2016 are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Financial Assets:			
Cash and cash equivalents	\$79,408	\$—	\$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	\$ —	\$—	\$9,654
Bank advances and other short-term debts	\$ 7,925	\$—	\$ —

The Company's derivative liability classified in Level 3 uses the discounted cash flow method to determine the fair value based on significant inputs that are not based on observable market data.

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not significantly change amounts recognized in net income, total assets, total liabilities or total equity.

There have been no transfers between levels for the period ended December 31, 2016.

13.3 Bank advances, short-term loan and debt

13.3.1 Chinese bank advances

As at December 31, 2016, one of the subsidiaries in China have drawn \$2.9 million (Renminbi 20.0 million) on its line of credit from a domestic bank. This loan will mature in January 2017 and bears interest at 4.35% per annum. The \$2.9 million (Renminbi 20.0 million) drawn has been

subsequently repaid in January 2017. As of December 31, 2016, one of the Chinese subsidiaries has an undrawn line of credit of approximately \$15.8 million (Renminbi 110.0 million).

13.3.2 German debt facility

As at December 31, 2016, one of the subsidiaries in Germany has a \$7.4 million (€7.0 million) revolving line of credit which can be drawn either in Euro or U.S. dollar. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate (“Euribor”) average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling partner of Buss & Buss amounting to \$0.3 million (€0.25 million) as well as a lien amounting to \$0.6 million (€0.5 million) on certain property, plant and equipment. The remainder of the revolving line of credit is secured by certain working capital of Buss & Buss.

As at December 31, 2016, \$2.4 million was drawn on the revolving line of credit.

There are no financial covenants which need to be met.

13.3.3 German bank advances

As at December 31, 2016, Buss & Buss has borrowed in aggregate, \$0.03 million (€0.025 million) as well as \$2.6 million (€2.5 million) consequently reducing the available debt facility from a German bank as mentioned above in Note 13.3.2. These loans will mature between January to June 2017. The repayment is based on fixed installments of quarterly or semi-annual payments. The interest rate is 0.96% and 2.25% for these two loans, respectively.

Buss & Buss is committed to meet, amongst others, the following financial covenants, calculated based on financial results prepared in accordance with German GAAP:

- the equity rate needs to be a minimum of 40%
- no change in ownership of the shares in the company
- requirement to inform the bank if securities of a higher quality are provided for similar bank advances from other banks.

NOTE 14 OPERATING SEGMENTS

The primary metric used to measure the financial performance of each operating segment is adjusted operating income before depreciation and amortization (“**Adjusted OIBDA**”), which provides a better indication of the base-line performance of the Company’s core business operations.

A comparative breakdown of business segment information is as follows:

For the period ended December 31, 2016:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate head office	Total for reportable segments	Eliminations	Total
External revenue	\$ 55,457	\$ 55,573	\$ 24,282	\$ —	\$ 135,312	\$ —	\$ 135,312
Inter-segment revenue	—	3,241	—	—	3,241	(3,241)	—
Total revenue	\$ 55,457	\$ 58,814	\$ 24,282	\$ —	\$ 138,553	\$(3,241)	\$ 135,312
Operating income (loss)	\$ 3,586	\$ (1,105)	\$ (5,955)	\$ (7,008)	\$ (10,482)	\$ (655)	\$ (11,137)
Other expense							(394)
Finance cost, net							(132)
Foreign exchange loss							(709)
Loss from operations before income taxes and equity income of associates							\$ (12,372)
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	\$ 3,586	\$ (1,105)	\$ (5,955)	\$ (7,008)	\$ (10,482)	\$ (655)	\$ (11,137)
Depreciation and amortization ...	3,065	1,812	1,667	55	6,599	—	6,599
Fair value of inventory release ⁽¹⁾	7,126	11,700	5,025	—	23,851	299	24,150
Adjusted OIBDA⁽²⁾	\$ 13,777	\$ 12,407	\$ 737	\$ (6,953)	\$ 19,968	\$ (356)	\$ 19,612
Capital expenditures	\$ 666	\$ 1,576	\$ 466	\$ 298	\$ 3,006	\$ —	\$ 3,006
As at December 31, 2016:							
Total assets	\$231,606	\$174,768	\$104,962	\$ 4,732	\$ 516,068	\$(2,317)	\$ 513,751
Investment in equity method associates	\$ 6,966	\$ —	\$ —	\$ —	\$ 6,966	\$ —	\$ 6,966
Total liabilities	\$(41,925)	\$(25,310)	\$(27,449)	\$(17,288)	\$(111,972)	\$ 2,317	\$(109,655)

(1) In accordance with IFRS 3 – Business Combinations, and on completion of the Reorganization, the Company recorded the acquisition of its inventory at fair value, which included a mark-up for profit of \$27,062. A portion of this inventory was sold in the period ended December 31, 2016 and had an impact on operating income (loss).

(2) Certain items are excluded from operating income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

The geographic distribution of the Company's revenues based on the location of the customers, for the period ended December 31, 2016 is summarized as follows:

<u>Revenues</u>	<u>Period ended December 31, 2016</u>
Asia:	
China	\$ 47,536
Japan	17,462
Thailand	5,010
South Korea	5,407
North America	25,572
Europe	30,932
Other	3,393
Total	<u>\$135,312</u>

Revenues from one significant customer accounts for \$19.6 million of Company's total revenues for the period ended December 31, 2016. The Company defines significant customers as those that are 10% or more of consolidated revenues.

NOTE 15 SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital balances related to operations consists of the following:

	<u>Period ended December 31, 2016</u>
Decrease (increase) in assets:	
Accounts receivable	\$ (4,907)
Inventories	(878)
Other assets	2,774
Increase (decrease) in liabilities:	
Accounts payable and other accrued charges	(18,381)
Total net change	<u>\$(21,392)</u>

NOTE 16 INCOME TAX

16.1 Income Tax Expense

	<u>Period ended December 31, 2016</u>
Current tax expense	
Current year	\$ 5,074
Deferred tax (benefit)	
Origination and reversal of temporary differences	(4,651)
Total income tax expense	<u>\$ 423</u>

16.2 Reconciliation of effective tax rate

	<u>Period ended December 31, 2016</u>
Loss from operations before taxes and equity income of associates	\$(12,372)
Income tax benefit at blended local statutory rate of 21.95%	(2,716)
Current year losses and deductible temporary differences for which no deferred tax asset has been recognized	1,066
Foreign withholding taxes	1,286
Deferred tax expense on foreign exchange translation of non-monetary items	416
Current year permanent differences	123
Foreign exchange translation gain	104
Other	144
Total income tax expense	<u>\$ 423</u>

16.3 Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable profits will be available against which the benefit can be used:

	December 31, 2016
Deductible temporary differences	\$ 14,638
Tax losses	<u>127,676</u>
	<u>\$142,314</u>

Tax losses for which no deferred tax asset was recognized that will not expire totaled \$1.8 million while tax losses of \$125.9 million will expire between 2018 and 2036.

16.4 Unrecognized deferred tax liabilities

At December 31, 2016 taxable temporary differences of \$20.4 million related to the investment in subsidiaries were not recognized because the Company controls the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

16.5 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2016
Deferred Tax Assets	
Inventory	\$ 4,341
Property, plant and equipment and intangible assets	378
Investments	249
Accrued liabilities	899
Deferred compensation and retirement benefits	—
Net operating losses	1,459
Other	<u>299</u>
Deferred Tax Liabilities	
Inventory	(288)
Property, plant and equipment and intangible assets	(18,642)
Foreign subsidiary earnings and withholding tax	(6,005)
Other	<u>(791)</u>
Deferred tax liabilities – net	<u>\$(18,101)</u>

For balance sheet disclosure purposes, deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in net deferred tax liabilities:

	December 31, 2016
Balance at the beginning of the period	\$ —
Acquisition through business combination (see below)	(23,004)
Recognized in profit or loss	4,651
Other	<u>252</u>
Balance at the end of the period	<u>\$(18,101)</u>

Net deferred tax liabilities acquired through business combination (Note 6):

	August 31, 2016
Inventory	\$ (2,024)
Property, plant and equipment and intangible assets	(19,560)
Investments	199
Accrued liabilities	1,092
Deferred compensation and retirement benefits	189
Net operating losses	1,792
Foreign subsidiary earnings and withholding tax	(4,943)
Other	251
Net deferred tax liabilities acquired through business combination	<u>\$(23,004)</u>

Neo's U.S. subsidiaries recognized net deferred tax assets of \$1.6 million relating to temporary differences related to inventory, reserves and property, plant and equipment. The U.S. subsidiaries have recently entered into Supply Agreements, Engineering and Technical Services Agreements and a Support Services Agreement that should result in stable future earnings. As a result, the Company considers it probable that future taxable profits will be available to utilize the deferred tax assets.

NOTE 17 SHARE CAPITAL

The share capital of the Company consists only of fully paid common shares with nominal par value. All shares are equally eligible to receive dividends and the repayment of capital and represent one vote at the shareholders' meeting of the Company.

None of the Company's shares are held by any subsidiary or associate.

	December 31, 2016
Number of shares authorized for issue:	50,000,000 common shares
Total common shares issued and fully paid	<u>9,907,561</u>
Total treasury shares	<u>62,106</u>

NOTE 18 EARNINGS PER SHARE

The calculation of earnings per share was based on net income or loss attributable to equity holders of the Company for the period ended December 31, 2016. The weighted average number of shares outstanding is calculated as follows:

	Period ended December 31,
Common shares issued at beginning of period	—
Weighted average impact of:	
Issuance of common shares	4,468,526
Repurchase and cancellation of common shares	(112)
Weighted average number of common shares for the period, basic and diluted	<u>4,468,414</u>
	Period ended December 31,
Net loss attributable to equity holders of Neo Cayman Holdings Ltd. – basic and diluted	<u>\$(12,645)</u>
	Period ended December 31,
Loss per share, basic and diluted	<u>\$(2.83)</u>

NOTE 19 EMPLOYEE BENEFITS

19.1 Defined benefit pension plan and other post-retirement benefits

The Company had a defined benefit pension plan which covered all hourly employees employed as at September 30, 1995 and all hourly employees subsequently hired by the Company up to March 1, 2002, at the Company's former manufacturing facility in Anderson, Indiana. There are no active participants in the plan. A December 31 measurement date is used for the plan. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2017 and the next funding valuation will be as of January 1, 2018.

It is the Company's policy to make contributions to this plan that meets the funding requirements of applicable laws and regulations, plus such additional amounts as deemed appropriate. The Company contributed \$82,505 during the period ended December 31, 2016. Investment policies for the plan are consistent with the Company's investment philosophy to reduce exposure to equity market risks. A pension asset investment committee meets periodically to review asset allocation percentages and investment goals. At December 31, 2016 the U.S. plan's assets consist of the following:

	December 31, 2016
Interest-bearing cash	5.0%
Fixed income securities	41.0%
Equities	49.0%
Others	5.0%

The Company also provides postretirement health benefits to certain of its former employees from the Anderson, Indiana manufacturing facility. Measurement of the defined benefit obligation ("DBO") at December 31, 2016 was based on a weighted-average discount rate of 3.6%. The measurement date used for postretirement benefit plans is December 31.

The following table sets forth details of the Company's components of defined benefit cost related to its U.S. pension and postretirement benefit plans for the period ended December 31, 2016:

	Pension 2016	Postretirement 2016	Total 2016
<u>Included in net loss</u>			
Net interest cost	\$37	\$1	\$38
Defined benefit cost included in profit or loss	<u>\$37</u>	<u>\$1</u>	<u>\$38</u>
<u>Remeasurement loss (gain) included in other comprehensive income</u>			
Actuarial loss (gain) arising from:			
Demographic assumptions	\$(204)	\$ (5)	\$(209)
Financial assumptions	(638)	(5)	(643)
Experience adjustments	79	1	80
Return on plan assets (excluding interest income)	42	—	42
Total remeasurement loss (gain) recognized in other comprehensive income	<u>\$(721)</u>	<u>\$ (9)</u>	<u>\$(730)</u>

The following table sets forth details of the Company's changes in the defined benefit obligation, plan assets and accrued pension and postretirement benefits as at December 31, 2016:

	Pension 2016	Postretirement 2016	Total 2016
<u>Present value of defined benefit obligation</u>			
Benefit obligation at the beginning of the period	\$ —	\$ —	\$ —
Acquisition through business combination (Note 6)	8,643	113	8,756
Service cost	—	—	—
Interest expense	97	1	98
Actuarial loss (gain) recognized in equity	(764)	(9)	(773)
Benefits paid	(164)	(3)	(167)
Benefit obligation at end of year	<u>\$7,812</u>	<u>\$102</u>	<u>\$7,914</u>
Unfunded	\$ —	\$102	\$ 102
Partly or wholly funded	<u>\$7,812</u>	<u>\$ —</u>	<u>\$7,812</u>
<u>Fair value of plan assets</u>			
Fair value of plan assets at the beginning of the period	\$ —	\$ —	\$ —
Acquisition through business combination (Note 6)	5,313	—	5,313
Return on plan assets (excluding interest income)	(42)	—	(42)
Employer contribution	82	3	85
Interest income	60	—	60
Benefits paid	(164)	(3)	(167)
Fair value of plan assets at end of year	<u>\$5,249</u>	<u>\$ —</u>	<u>\$5,249</u>
Net defined benefit obligation	<u>\$2,563</u>	<u>\$102</u>	<u>\$2,665</u>

The following table sets forth significant actuarial assumptions used in measuring the Company's pension and other benefit obligations and expense as at December 31, 2016:

	Pension benefit plans 2016	Other benefit plans 2016
Actuarial assumptions		
Discount rate	4.05%	3.60%
Health care cost trend rate	None	None

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	Pension benefit plans 2016	Other benefit plans 2016
Assumed life expectations on retirement at age 65		
Retiring today (member age 65)		
Males	19.8	19.8
Females	22.3	22.3
Retiring in 25 years (member age 40 today)		
Males	21.9	21.9
Females	24.4	24.4

At December 31, 2016, the weighted-average duration of the defined benefit obligation was 11.7 years.

	Pension benefit plans 2016		Other benefit plans 2016	
	Increase	Decrease	Increase	Decrease
Sensitivity analysis				
Discount rate (1% movement)	\$(830)	\$1,021	\$(7)	\$8

The expected rate of return on plan assets is based on the discount rate at the measurement date, and includes an analysis of historical returns and predictions about future returns.

19.2 Defined contribution retirement benefits

The Company sponsors a defined contribution 401(k) retirement plan available to substantially all U.S. salaried employees and contributes up to 9% of salaried employees' compensation to the plan. The Company's contributions to the plan during the period ended December 31, 2016 was approximately \$0.1 million. The Company has a similar defined contribution plan available to all Canadian salaried employees and contributes up to 5% of salaried employees' base salary to the plan. The Company's contribution to the plan during the period ended December 31, 2016 was minimal.

NOTE 20 COMMITMENTS AND CONTINGENCIES

20.1 Lease commitments

The Company's future minimum lease payments are as follows:

	Less than 1 year	1 to 5 years	Greater than 5 years	Total
Future minimum lease payments	\$1,954	\$2,114	\$267	\$4,335

During the period ended December 31, 2016, the Company recognized \$0.6 million of lease payments as expense for the rental of premises. There were no contingent rent payments or sublease payments made or received during the period ended December 31, 2016.

20.2 Sales and purchase commitments

In the normal course of business, the Company and its subsidiaries enter into sales commitments with customers, and purchase commitments with suppliers. These commitments are for varying terms and can provide for fixed or variables prices. The Company believes that these contracts serve to reduce risk, and does not anticipate that losses will be incurred on these contracts.

20.3 Legal contingencies

In 2014 Rhodia Chimie ("Rhodia") filed suit against the Company in Germany alleging that, since 2004, the Company has been selling certain products in Germany that infringe three European patents held by Rhodia, two of which have expired. In March 2016 the Court determined the Company's products to be infringing with respect to the two expired patents, and ordered the Company to provide information related to

calculation of damages. The Court also determined that the Company's products infringe the third patent; however, the Court stayed the proceedings until there is decision of the Federal Patent Court on three invalidity actions filed by the Company with respect to the patents. The Company has filed appeals of the court's rulings on the infringement actions. In September 2016, the Federal Patent Court ruled in the Company's favor, invalidating one of the Rhodia patents. In October 2016, the Federal Patent Court ruled on the two other invalidity actions, significantly restricting the claims in one patent, which had the effect of making several of the Company's products non-infringing and slightly modifying the other.

No provision has been accrued in the consolidated statement of financial position of the Company in respect of these infringement claims, because the Company considers the outcome of these actions to be uncertain; however, if the appeals and the invalidity actions are not successful, then the Company may be required to pay damages to Rhodia, the amount of which cannot be estimated at this time.

NOTE 21 PROVISIONS

The Company's NPM Silmet AS facility in Estonia, in its normal operation, generates hazardous and naturally occurring radioactive materials ("NORM"). These materials are stored at the site.

As at December 31, 2016, the Company recorded a provision of \$4.4 million for the disposal of the NORM and other related costs, in accordance with local regulations. This amount represents management's best estimate of the costs to be incurred by the Company to settle the obligation.

NOTE 22 RELATED PARTY TRANSACTIONS

The Company's related parties are its joint ventures, associates, pension plans, directors and executive officers.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

22.1 Transactions with associates

On occasion, MQTJ will supply Magnequench Powders to TMT to produce rare earth magnetic compounds. MQTJ will then purchase these compounds back from TMT in its normal course of business. Keli processes rare earth oxides into metals for inclusion in Magnequench Powders.

For the period ended December 31, 2016, the Company purchased \$0.4 million worth of compounds from TMT, and purchased metals and received services from Keli amounting to \$17.7 million. During the period, the Company sold Magnequench Powders and performed services, respectively, amounting to \$0.9 million to TMT and minimal to Keli. The Company also received services from GQD amounting to \$0.3 million for the period ended December 31, 2016.

22.2 Transactions with related parties

The Company, through its sales company in Japan, Neo Japan, Inc, has occasionally purchased Gallium from Beijing Jiya Semiconductor Material Co., Ltd. for resale to third party customers. For the period ended December 31, 2016, these purchases were \$0.7 million.

Transactions between the Company and its related parties are summarized in the table below:

	Period ended December 31, 2016
Sale of goods and services to related parties	\$ 911
Purchase of goods and services from related parties	18,772
	December 31, 2016
Trade balances:	
from associates	\$ 179
due to associates	(10,059)
Total	\$ (9,880)

NOTE 23 DIRECTORS AND KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors. Key management includes six executive officers and three non-employee directors.

Aggregate compensation for the period ended December 31, 2016 was as follows:

	Short-term employee benefits	Post-employment benefits
Directors	\$ 73	\$—
Key Executive Members	1,541	2
Total	\$1,614	\$ 2

The Company maintains a management incentive plan entitling certain management personnel to both time based options and restricted share awards. Time-based options vest over a period of up to four years. The restricted share awards have several vesting conditions including time-based vesting over a period of up to four years and/or vesting upon a liquidity event resulting in the majority shareholders' achievement of certain internal rates of return. The awards have a contractual life of 10 years. All awards remain outstanding as at December 31, 2016.

NOTE 24 SALARIES EXPENSE

The employee salaries expense included in cost of sales, selling, general and administrative and research and development expenses are \$15.1 million for the period ended December 31, 2016.

NOTE 25 FINANCIAL RISK MANAGEMENT

In the normal course of operations, the Company is exposed to a number of different financial risks. These risk factors include market risks such as foreign exchange risk, interest rate risk, other price risk, as well as credit risk and liquidity risk.

25.1 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, equity prices and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to mitigate exposures within acceptable limits, while maximizing returns.

25.2 Foreign currency exchange risk

Foreign currency exchange risk refers to the fluctuation of financial commitments, assets, liabilities, income or cash flow due to changes in foreign exchange ("FX") rates. The Company conducts business transactions and owns assets in multiple countries; as a result, the Company is subject to fluctuations in respect of the currencies in which it operates. The Company's income is exposed to FX risk largely in the following ways:

- Translation of foreign currency denominated revenues and expenses into U.S. dollars, the currency in which the Company reports in – When the foreign currency changes in relation to the U.S. dollar, income reported in U.S. dollars will change. The impact of weakening foreign currency in relation to the U.S. dollar for foreign currency denominated revenues and expenses will result in higher net income because the Company has more foreign currency based expenses than revenues.
- Translation of foreign currency denominated debt and other monetary items – A weakening foreign currency in respect of the Company's foreign currency denominated debt will decrease the debt in U.S. dollar terms and generate a FX gain on bank advances and other short-term debt, which is recorded in income. The Company calculates FX on the short-term debt using the difference in FX rates at the beginning and at the end of each reporting period. Other foreign currency denominated monetary items will also be impacted by changes in FX rates.

The following table summarizes in U.S. dollar equivalents the Company's major currency exposures as of December 31, 2016:

	Chinese Renminbi	Euro	USD	Thai Baht	Canadian Dollar	British Pound
Cash and cash equivalents	\$ 5,561	\$ 2,359	\$10,270	\$1,811	\$1,221	\$ 159
Accounts receivable	2,462	407	494	912	—	—
Bank advances and other short-term debt	—	(2,656)	—	—	—	—
Accounts payable and accrued liabilities	(4,244)	(5,066)	—	(660)	(519)	(657)
Income tax payable	(1,573)	—	—	—	—	—
Net financial assets (liabilities)	\$ 2,206	\$(4,956)	\$10,764	\$2,063	\$ 702	\$(498)

The following table shows the impact of a one-percentage point strengthening or weakening of foreign currencies against the U.S. dollar as of December 31, 2016 for the Company's financial instruments denominated in non-functional currencies:

	Chinese Renminbi	Euro	Thai Baht	Canadian Dollar	British Pound
1% Strengthening					
Net earnings before tax	\$ 22	\$(50)	\$ 21	\$ 7	\$ 103
1% Weakening					
Net earnings before tax	(22)	50	(21)	(7)	(103)

The effect on profit or loss of a one-percentage point strengthening or weakening of U.S. dollar financial assets and liabilities held in non-U.S. dollar functional currency subsidiaries is \$0.1 million gain or loss, respectively.

25.3 Interest rate risk

This refers to the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its revolving line of credit which bear a floating rate of interest.

25.4 Credit risk

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result, create a financial loss for the Company. The Company has a credit policy that defines standard credit practice. This policy dictates that all new customer accounts are reviewed prior to approval, and establishes the maximum amount of credit exposure per customer. Credit worthiness and financial well-being of the customer is monitored on an ongoing basis.

The Company establishes an allowance for doubtful accounts as determined by management based on their assessment of collection, therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at December 31, 2016, the Company has an allowance for doubtful accounts of \$0.2 million. The provision for doubtful accounts, if any, is included in Selling, general and administrative expenses in the consolidated statement of profit or loss, and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at December 31, 2016, the Company does not anticipate non-performance that would materially impact the Company's financial statements.

25.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure, as outlined in Note 26. It also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account the Company's sales and receipts and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves the Company's annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisitions and other major investments.

The following table reflects the contractual maturity of the Company's financial liabilities as at December 31, 2016:

Financial liabilities	1 year	2-3 years	4-5 years	Beyond 5 years	Total
Bank advances and other short-term debt	\$ 7,925	\$ —	\$—	\$ —	\$ 7,925
Accounts payable and other accrued charges	57,387	—	—	—	57,387
Derivative liability*	—	—	—	9,654	9,654
Other liabilities	937	604	—	—	1,541
Total	\$66,249	\$604	\$—	\$9,654	\$76,507

* The fair value of the put option on shares of the remaining shareholder of Buss & Buss

NOTE 26 CAPITAL DISCLOSURES

The Company's objectives when managing its capital are:

- to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future growth of the business, both internally and by acquisition;
- to provide an adequate return to its shareholders;
- to manage capital in a manner that will maintain compliance with its financial covenants.

The Company defines its capital as follows:

- shareholders' equity;
- non-controlling interests;
- bank advances and other short-term debt; and
- long-term debt

The Company manages its capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as in the light of changes in economic conditions and the risk characteristics of the underlying assets. As well, the Company may issue new shares and/or new debt to replace existing debt. There are no assurances that these initiatives will be carried out.

In the management of capital, the Company has established quantitative return on capital criteria, and year-over-year sustainable earnings growth targets for the Company's divisions. These targets are monitored and reviewed on a quarterly basis by using a number of key financial metrics, including:

- return on capital employed ("ROCE"): operating income divided by average capital employed – ROCE is a key measurement of financial performance, focusing on cash and the efficient use of capital;
- net debt to capitalization, is net debt (the sum of long-term debt including the current portion and bank advances, less cash), divided by the sum of net debt, shareholders' equity and non-controlling interests.

Both of these metrics have no standardized meanings prescribed by IFRS and, therefore, are unlikely to be comparable to similar measures of other companies.

NOTE 27 SUBSEQUENT EVENTS

On September 12, 2017, OCM Neo Holdings (Cayman), L.P. (“OCM”) formed Neo Performance Materials Inc. (“NewCo”), a company incorporated in the province of Ontario, for the purpose of completing a Cayman Islands scheme of arrangement with the Company and a subsequent public offering of the common shares of NewCo (“NewCo Shares”).

NewCo filed a final prospectus on ●, 2017 with the securities commissions of each of the provinces and territories of Canada for an initial public offering by way of secondary offering of ● NewCo Shares held by OCM to the public at a price of C\$ ● per share (the “Offering”), subject to the terms of an underwriting agreement entered into between NewCo, the underwriters and OCM. Pursuant to the underwriting agreement, OCM granted the underwriters an over-allotment option, exercisable, in whole or in part, at any time prior to the 30th day after the closing of the Offering, to purchase from OCM that number of NewCo Shares equal to 15% of the NewCo Shares sold on the closing date of the Offering.

Prior to filing the final prospectus, NewCo intends to complete the Arrangement with the Company whereby NewCo will acquire all of the issued and outstanding shares of the Company in exchange for the issuance of an aggregate of 39,878,383 NewCo Shares. The acquisition by NewCo of the Company will be a transaction amongst entities under common control. NewCo intends to account for this transaction using book value accounting, based on the book values that would be recognized in the consolidated financial statements of the Company.

**NEO PERFORMANCE MATERIALS OPERATIONS
COMBINED CARVE-OUT FINANCIAL STATEMENTS
FOR THE EIGHT MONTH PERIOD ENDED AUGUST 30, 2016 AND
YEARS ENDED DECEMBER 31, 2015, AND 2014**



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INDEPENDENT AUDITORS' REPORT

To the Directors of Neo Cayman Holdings Ltd.

We have audited the accompanying combined carve-out financial statements of Neo Performance Materials Operations, which comprise the combined carve-out statement of financial position as at August 30, 2016, December 31, 2015 and December 31, 2014, the combined carve-out statements of profit or loss, comprehensive income (loss), changes in invested equity and cash flows for the eight month period ended August 30, 2016 and years ended December 31, 2015 and 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Combined Carve-Out Financial Statements

Management is responsible for the preparation and fair presentation of these combined carve-out financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of combined carve-out financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined carve-out financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined carve-out financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined carve-out financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the combined carve-out financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined carve-out financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined carve-out financial statements present fairly, in all material respects, the combined carve-out financial position of Neo Performance Materials Operations as at August 30, 2016, December 31, 2015, and December 31, 2014, and its combined carve-out financial performance and its combined carve-out cash flows for the eight month period ended August 30, 2016 and years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 to the combined carve-out financial statements which describes the basis of preparation used in these combined carve-out financial statements. The combined carve-out financial statements are prepared for the purpose of including them in a prospectus to provide historical financial information of the downstream business operations of Molycorp, Inc. (the “Neo Businesses”) to allow comparability with the Neo Cayman Holdings Ltd. consolidated financial statements for periods after the acquisition of the Neo Businesses.

Chartered Professional Accountants, Licensed Public Accountants

November •, 2017

Toronto, Canada

NEO PERFORMANCE MATERIALS OPERATIONS
COMBINED CARVE-OUT STATEMENTS OF FINANCIAL POSITION
(All figures in thousands of United States dollars)

	August 30, 2016	December 31, 2015	December 31, 2014
ASSETS			
Current			
Cash and cash equivalents	\$ 90,316	\$101,302	\$107,678
Accounts receivable (Note 4)	35,020	37,608	42,651
Accounts receivable from related parties (Note 17)	—	124,313	18,019
Inventories (Note 5)	98,942	115,490	134,302
Income taxes receivable	1,328	1,005	1,082
Other current assets	18,119	11,373	8,177
Total current assets	243,725	391,091	311,909
Property, plant and equipment (Note 6)	81,316	86,401	132,304
Intangible assets (Note 7)	72,021	76,890	215,486
Goodwill (Note 8)	52,538	53,758	102,808
Investment (Note 9)	7,553	7,315	8,017
Deferred tax assets (Note 14)	2,755	2,738	16,874
Loan receivable from related parties (Note 17)	—	—	85,029
Other non-current assets	2,300	2,093	1,947
Total non-current assets	218,483	229,195	562,465
Total assets	\$462,208	\$620,286	\$874,374
LIABILITIES AND EQUITY			
Current			
Bank advances and other short-term debt (Note 10)	\$103,109	\$101,931	\$ 9,176
Accounts payable and other accrued charges	77,374	38,779	44,578
Borrowings from related parties (Note 11 and 17)	8,092	76,631	103,220
Income taxes payable	3,995	6,908	9,661
Other current liabilities	877	6	—
Total current liabilities	193,447	224,255	166,635
Long-term debt (Note 10)	1,750	1,821	52,909
Employee benefits (Note 15)	3,443	2,746	3,139
Derivative liability (Note 11)	9,502	6,074	10,135
Provisions (Note 22)	4,350	4,350	—
Deferred tax liabilities (Note 14)	16,098	18,463	45,996
Other non-current liabilities	636	649	606
Total non-current liabilities	35,779	34,103	112,785
Total liabilities	229,226	258,358	279,420
Non-controlling interest	4,557	4,632	7,215
Parent's net investment	228,425	357,296	587,739
Total equity	232,982	361,928	594,954
Total liabilities and equity	\$462,208	\$620,286	\$874,374
Commitments and contingencies (Note 16)			
Subsequent events (Note 23)			

See accompanying notes

NEO PERFORMANCE MATERIALS OPERATIONS
COMBINED CARVE-OUT STATEMENTS OF PROFIT OR LOSS
(All figures in thousands of United States dollars)

	<u>January 1 to August 30, 2016</u>	<u>Year ended December 31, 2015</u>	<u>Year ended December 31, 2014</u>
Revenue	\$246,818	\$ 396,826	\$ 454,450
Costs of sales			
Costs excluding depreciation and amortization	178,729	294,670	342,610
Depreciation and amortization	<u>7,044</u>	<u>14,832</u>	<u>19,663</u>
Gross profit	61,045	87,324	92,177
Expenses			
Selling, general and administrative	30,953	45,419	45,511
Depreciation and amortization	5,151	18,913	24,933
Research and development	9,110	13,257	14,739
Impairment of goodwill and other long-lived assets	<u>—</u>	<u>203,928</u>	<u>222,246</u>
	45,214	281,517	307,429
Operating income (loss)	<u>15,831</u>	<u>(194,193)</u>	<u>(215,252)</u>
Other income (expense)			
Other income (expense)	1,737	(8,326)	(3,283)
Reorganization items (Note 1.3)	(2,471)	(32,187)	—
Finance costs, net	(7,189)	(8,347)	(11,496)
Foreign exchange (loss) gain	<u>(4,117)</u>	<u>7,613</u>	<u>2,462</u>
Income (loss) from operations before income taxes and equity income of associates	3,791	(235,440)	(227,569)
Income tax (expense) benefit (Note 14)	<u>(8,375)</u>	<u>9,980</u>	<u>7,376</u>
Loss from operations before equity income of associates	(4,584)	(225,460)	(220,193)
Equity income (loss) and impairment of associates (net of income tax) (Note 9)	<u>238</u>	<u>(702)</u>	<u>(5,413)</u>
Net loss	<u>\$ (4,346)</u>	<u>\$(226,162)</u>	<u>\$(225,606)</u>
Attributable to:			
Parent's investment	\$ (4,277)	\$(223,842)	\$(207,361)
Non-controlling interest	<u>\$ (69)</u>	<u>\$ (2,320)</u>	<u>\$ (18,245)</u>
	<u>\$ (4,346)</u>	<u>\$(226,162)</u>	<u>\$(225,606)</u>

See accompanying notes

NEO PERFORMANCE MATERIALS OPERATIONS
COMBINED CARVE-OUT STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (All figures in thousands of United States dollars)

	<u>January 1 to August 30, 2016</u>	<u>Year ended December 31, 2015</u>	<u>Year ended December 31, 2014</u>
Net loss for the period	<u>\$(4,346)</u>	<u>\$(226,162)</u>	<u>\$(225,606)</u>
Other comprehensive income (loss):			
Item that will not be reclassified to profit or loss:			
Defined benefit pension plan actuarial gain (loss) (net of income tax expense (benefit) of: 2016 – NIL; 2015 –\$885 and 2014 –\$(512))	(816)	(703)	(807)
Item that is or may be reclassified subsequently to profit or loss:			
Currency translation adjustment	<u>(2,811)</u>	<u>(6,274)</u>	<u>1,642</u>
Other comprehensive income (loss) for the period	<u>(3,627)</u>	<u>(6,977)</u>	<u>835</u>
Total comprehensive loss for the period	<u>\$(7,973)</u>	<u>\$(233,139)</u>	<u>\$(224,771)</u>
Attributable to:			
Non-controlling interest	(75)	(2,664)	(18,360)
Parent’s investment	(7,898)	(230,475)	(206,411)

See accompanying notes

NEO PERFORMANCE MATERIALS OPERATIONS
COMBINED CARVE-OUT STATEMENTS OF CHANGES IN INVESTED EQUITY
(All figures in thousands of United States dollars)

	Parent's investment	Currency translation adjustment	Pension plan actuarial gains (net of tax)	Total parent's net investment	Non- controlling interest	Total equity
Balance at January 1, 2014	\$ 875,506	\$ 4,864	\$ (952)	\$ 879,418	\$ 29,636	\$ 909,054
Loss for the period	(207,361)	—	—	(207,361)	(18,245)	(225,606)
Pension plan actuarial loss, net of tax	—	—	(807)	(807)	—	(807)
Distributions to non-controlling interests, net of contributions	—	—	—	—	(4,061)	(4,061)
Translation differences	—	1,757	—	1,757	(115)	1,642
Movements in parent's investment	(85,268)	—	—	(85,268)	—	(85,268)
Balance at December 31, 2014	582,877	6,621	(1,759)	587,739	7,215	594,954
Loss for the period	(223,842)	—	—	(223,842)	(2,320)	(226,162)
Pension plan actuarial loss, net of tax	—	—	(703)	(703)	—	(703)
Distributions to non-controlling interests, net of contributions	—	—	—	—	(128)	(128)
Translation differences	—	(6,139)	—	(6,139)	(135)	(6,274)
Movements in parent's investment	241	—	—	241	—	241
Balance at December 31, 2015	359,276	482	(2,462)	357,296	4,632	361,928
Loss for the period	(4,277)	—	—	(4,277)	(69)	(4,346)
Pension plan actuarial loss, net of tax	—	—	(816)	(816)	—	(816)
Translation differences	—	(2,805)	—	(2,805)	(6)	(2,811)
Movements in parent's investment	(120,973)	—	—	(120,973)	—	(120,973)
Balance at August 30, 2016	234,026	(2,323)	(3,278)	228,425	4,557	232,982

See accompanying notes

NEO PERFORMANCE MATERIALS OPERATIONS
COMBINED CARVE-OUT STATEMENTS OF CASH FLOWS
(All figures in thousands of United States dollars)

	January 1 to August 30, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Operating activities			
Net loss for the period	\$ (4,346)	\$(226,162)	\$(225,606)
Add (deduct) items not affecting cash			
Depreciation and amortization	12,195	33,745	44,596
Finance costs	3,761	8,438	8,372
Inventory write-downs	2,422	14,217	6,011
Income tax expense (benefit)	8,375	(9,980)	(7,376)
Allowance for doubtful accounts	6	34	31
Equity (income) loss of associates (Note 9)	(238)	702	5,413
Impairment of goodwill and other long-lived assets	—	203,928	222,246
Impairment of other receivables	—	—	3,243
Loss on disposal of property, plant and equipment	43	891	421
Change in pension liability	(701)	(160)	(223)
Change in fair value of embedded derivative	3,428	(91)	3,124
Provisions	—	4,350	—
Income and expenses allocated from parents	2,757	7,860	8,700
Reorganization items	1,007	32,164	—
Foreign exchange gain/loss	4,232	(7,506)	(2,492)
Other operating activities	730	408	437
Net change in non-cash working capital balances related to operations (Note 13)	31,739	10,106	12,216
Income taxes paid, net of income tax refunds received	(10,202)	(13,852)	(14,027)
Interest paid, net of interest received	(6,672)	(7,874)	(11,080)
Cash provided by operating activities	\$ 48,536	\$ 51,218	\$ 54,006
Investing activities			
Additions of property, plant and equipment	(4,308)	(9,327)	(8,206)
Additions of intangible assets	—	—	(37)
Dividends received from equity investments	—	—	2,014
Proceeds from sale of assets	—	—	1,008
Loan to related parties	(31,073)	(20,402)	(63,334)
Loan repayments from related parties	1,073	4,547	1,100
Other investing activities	—	162	(656)
Cash used in investing activities	\$ (34,308)	\$ (25,020)	\$ (68,111)
Financing activities			
Net proceeds from term loans	—	—	60,000
Debt issuance costs	—	—	(3,321)
Increase (decrease) in bank advances and other short-term debt	(2,922)	1,428	(7,406)
Loan proceeds from related parties	—	3,000	9,000
Repayment of loan to related parties	(6,676)	(29,444)	(45,410)
Dividend and cash paid to non-controlling interest	(610)	(1,516)	(1,293)
Movement in parent's investment	(14,103)	(4,000)	(27,000)
Other financing activities	—	(187)	(181)
Cash used in financing activities	\$ (24,311)	\$ (30,719)	\$ (15,611)
Effect of exchange rate changes on cash	(903)	(1,855)	(1,246)
Cash used during the year	(10,986)	(6,376)	(30,962)
Cash and cash equivalents, beginning of year	101,302	107,678	138,640
Cash and cash equivalents, end of year	\$ 90,316	\$ 101,302	\$ 107,678

See accompanying notes

NEO PERFORMANCE MATERIALS OPERATIONS

NOTES TO COMBINED CARVE-OUT FINANCIAL STATEMENTS (Tabular figures in thousands of United States dollars, unless otherwise stated)

NOTE 1 NATURE OF OPERATIONS & BASIS OF PREPARATION

1.1 Nature of Operations

Molycorp, Inc., through its manufacturing facilities in three continents, is a leading supplier of rare earth and rare metal-based engineered performance materials used in a wide range of technology applications across many sectors.

On June 25, 2015 (the “**Petition Date**”), Molycorp, together with certain of its subsidiaries (collectively, “**Molycorp**”), filed a voluntary petition for reorganization under chapter 11 (the “**Chapter 11 Cases**”) of title 11 of the United States Code (the “**Bankruptcy Code**”) in the United States Bankruptcy Court for the District of Delaware (the “**Court**”). On August 31, 2016, pursuant to the terms of the Fourth Joint Amended Plan of Reorganization, certain subsidiaries of Molycorp emerged from bankruptcy. The reorganized business is comprised of a number of operating subsidiaries organized under a holding company, Neo Cayman Holdings Ltd., which is ultimately controlled by Oaktree Capital Management L.P. As a result of the reorganization, Neo Cayman Holdings Ltd. (the “**Successor**”) acquired certain subsidiaries of Molycorp representing downstream business operations denominated Neo Performance Materials Operations (“**Neo**”, the “**Company**” or the “**Group**”).

Neo has approximately 1,830 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States, Germany, Canada, Thailand and South Korea as well as two dedicated R&D centres in Singapore and the United Kingdom. Neo is the only non-Chinese company with a license to separate rare earth elements in China which provides unique competitive advantages and a degree of vertical integration. Since 1994 Neo has leveraged its rare earth separation expertise to innovate and grow into a leading manufacturer of functional engineered materials for specialty end markets. This includes establishing the #1 global market position in bonded magnets, a top three global market position in auto emission control catalysts, the #1 GaCl₃ producer for LEDs and growth opportunities into new end markets such as wastewater treatment. The Company is organized along three business segments: Magnequench, Chemicals and Oxides (“**C&O**”), and Rare Metals.

Magnequench

The Magnequench segment, with over thirty years of manufacturing experience, is the world leader in the production of magnetic powders used in bonded and hot deformed fully dense NdFeB magnets. These powders are formed through Magnequench’s market-leading technology related to the development, processing and manufacturing of magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of REOs as the primary input. These powders are used in the production of bonded permanent magnets that are components in automotive motors, micro motors, traction motors, sensors and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

C&O

The C&O segment manufactures and distributes a broad range of light and heavy rare earth functional materials that have become an indispensable part of modern life. Neo’s world-class rare earth processing and materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered materials. Applications from these products include auto and light-duty vehicle catalysts, consumer electronics, petroleum refining, hybrid and electric vehicles and wastewater treatment.

Rare Metals

The Rare Metals segment sources, reclaims, produces, refines and markets high value metals and their compounds. These products include both high temperature metals (tantalum, niobium, hafnium and rhenium) and electronic metals (gallium and indium). Applications from products made in this segment primarily include superalloys for jet engines, medical imaging, wireless technologies and LED lighting. Other applications include their use in flat panel displays, solar, steel additives, batteries and electronics applications.

Corporate Offices

Neo’s head office is in Toronto, Ontario, Canada, with additional corporate offices in Greenwood, Colorado, U.S. and Beijing, China. The functions of this group include finance, administration, information technology, accounting and legal.

1.2 Basis of presentation

Neo Performance Materials Operations, which represents the historical financial information of the acquired subsidiaries of Molycorp, is not an existing legal entity for the periods presented in these combined carve-out financial statements. Management has prepared these combined carve-out financial statements for the purpose of including them in a prospectus providing historical financial information of the downstream business operations of Molycorp to allow comparability with the Successor consolidated financial statements for the periods after the acquisition.

The combined carve-out financial statements of Neo are presented for the years ended December 31, 2014, December 31, 2015 and the eight month period ended August 30, 2016, which is the last day before the Successor acquired control of the downstream business operations, and have been prepared on a combined carve-out basis from the underlying books and records of the components of Molycorp, to represent the historical financial position and performance of Neo as if Neo had existed on a stand-alone basis for the periods presented herein. The combined carve-out financial statements have been prepared in conformity with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”).

These combined carve-out financial statements are prepared by combining financial information from the business segments of Molycorp described in Note 1.1 and include the assets, liabilities, revenues and expenses that management has determined are specifically attributable to Neo. Certain expenses and expenditures presented in the Neo combined carve-out financial statements represent an allocation of the cost of services previously incurred by Molycorp, which would be required to operate Neo. Management believes these allocations reasonably reflect the expenses for Neo which have been incurred during the periods presented, including administrative and corporate costs related to certain support functions that were provided on a centralized basis within Molycorp. The support functions provided to Neo by Molycorp include, but are not limited to accounting, information technology, taxation, legal, corporate services, corporate governance and other professional services.

The costs of these services have been allocated to Neo for purposes of preparing the combined carve-out financial statements based on estimated usage of the services by Neo. The estimated usage of central support services by Neo has been determined by its portion of total assets utilized to generate revenue. Management considers that such allocations have been made on a reasonable basis, but may not necessarily be indicative of the costs that would have been incurred if Neo had been operated on a stand-alone basis.

Central support costs of Neo for the eight month period ended August 30, 2016 and years ended December 31, 2015 and December 31, 2014, amounted to \$2.9 million, \$7.8 million and \$8.5 million, respectively.

The combined carve-out financial statements do not include the results of operations of certain Molycorp subsidiaries related to the Resources business segment including Molycorp's Mountain Pass operation. The transaction and balances with these subsidiaries have not been eliminated and have been presented as transactions with related parties as disclosed in Note 17 to these combined carve-out financial statements.

These combined carve-out financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

Income taxes were determined based on the assumption that the companies in the Group were separate taxable entities. This assumption implies that the current and deferred income taxes of all companies and of the tax groups within Neo are calculated separately and the recoverability of the deferred tax assets is also assessed accordingly. Due to the fact that certain entities of Molycorp did not file separate tax returns in previous years, the respective current tax assets and liabilities, as well as the deferred tax assets on net operating losses, are deemed either contributed or distributed to the respective tax group member filing the tax return with a corresponding effect in the equity of the (non-Molycorp group) shareholder as of the end of the respective fiscal year. The taxes actually paid by Neo have been presented in the combined carve-out statements of cash flows; the deemed contributions or distributions have not been included. Receivables and payables between Molycorp and Neo arising from the Group have been disclosed under other tax receivables / payables.

The combined carve-out financial statements are presented in United States dollars ("U.S. dollars").

The combined carve-out financial statements for the years ended December 31, 2014, December 31, 2015 and the eight month period ended August 30, 2016 were approved and authorized for issue by the Company's Board of Directors on October 6, 2017.

1.3 Reorganization items

The Company reports costs directly associated with the reorganization proceedings as reorganization items, net in the accompanying combined carve-out statements of profit or loss. These costs include legal and other professional advisory fees pertaining to the Chapter 11 Cases, and all adjustments made to the carrying amount of certain pre-petition liabilities reflecting claims allowed by the Court. The following table represents the reorganization items incurred after the Petition Date:

	January 1 to August 30, 2016	Year-ended December 31, 2015	Year-ended December 31, 2014
Adjustments of other claims	\$ (63)	\$ —	\$—
Severance resulting from reorganization	1,568	—	—
Early payment premium on Magnequench term loan	—	27,338	—
Write-off of springing maturity on Magnequench term loan	—	(3,970)	—
Write-off of deferred financing cost on Magnequench term loan	—	8,796	—
U.S. trustee fee	265	—	—
Legal and other professional fees	701	23	—
Total	<u><u>\$2,471</u></u>	<u><u>\$32,187</u></u>	<u><u>\$—</u></u>

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Overall considerations

These combined carve-out financial statements have been prepared using accounting policies specified by IFRSs as issued by the IASB. The accounting policies have been consistently applied in the preparation of all periods presented, as if those policies had always been in effect.

The significant accounting policies that have been applied in the preparation of these combined carve-out financial statements are summarized below.

2.2 Basis of Consolidation

2.2.1 Business Combinations

Business combinations are accounted for using the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statements of financial position at their fair values, which are also used as the basis for subsequent measurement in accordance with the Company's accounting policies. Non-controlling interest is measured at the fair value of the identifiable assets and liabilities acquired. Goodwill represents the excess of the fair value of the consideration transferred over the fair value of the identifiable net assets of the acquiree at the date of acquisition.

Acquisition-related costs paid to third parties are expensed as incurred unless they are costs related to the issuance of debt or equity instruments. Debt issuance costs are accounted for as a deduction in the carrying value of the related debt instrument and amortized as a finance charge over the term of the debt, and equity issuance costs are accounted for as a deduction from share capital.

2.2.2 Subsidiaries and associates

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the combined carve-out financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests ("NCI") arise from business combinations in which the Company acquires less than 100% interest. NCI is initially measured at the fair value of the acquiree's identifiable net assets at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary NCI.

Changes in the Company's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

An associate is an entity over which the Company has significant influence, but does not have control, or joint control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

Subsequent to initial recognition, the combined carve-out financial statements include the Company's share of the profit or loss and other comprehensive income (loss) ("OCI") of associates.

When Neo's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to zero and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. Changes resulting from the net income or loss generated by the associates are reported within Equity income of associates in the combined carve-out statements of profit or loss.

Outlined below is information related to the Company's subsidiaries and associates at August 30, 2016:

	Place of business	Entity type	Economic interest	Method
Neo Performance Materials ULC	Canada	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides LLC	United States	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides (Europe) Ltd.	United Kingdom	Subsidiary	100%	Consolidation
Neo Rare Metals Korea Inc.	Korea	Subsidiary	100%	Consolidation
Neo International Corp.	Barbados	Subsidiary	100%	Consolidation
Jiangyin Jiahua Advanced Materials Resources Co., Ltd.	China	Subsidiary	95%	Consolidation
MCP Holdings Canada ULC	Canada	Subsidiary	100%	Consolidation
Neo Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Neo Performance Materials (Singapore) Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Zibo Jiahua Advanced Materials Resources Co., Ltd.	China	Subsidiary	95%	Consolidation
NPM Silmet AS	Estonia	Subsidiary	100%	Consolidation
Magnequench Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Shanxi Jiahua Galaxy Electronic Materials Co., Ltd.	China	Subsidiary	60%	Consolidation
Magnequench (Korat) Co., Ltd.	Thailand	Subsidiary	100%	Consolidation
Zibo Jia Xin Magnetic Materials Ltd.	China	Subsidiary	100%	Consolidation
Neo Rare Metals (Utah), LLC	United States	Subsidiary	100%	Consolidation
NPM Holding (US), Inc.	United States	Subsidiary	100%	Consolidation
NMT Holdings GmbH	Germany	Subsidiary	100%	Consolidation
Buss & Buss Spezialmetalle GmbH	Germany	Subsidiary	50%	Consolidation
Neo Rare Metals (Oklahoma), LLC	United States	Subsidiary	80%	Consolidation
Jiangyin Kidokoro Glass Manufacture Co., Ltd.	China	Subsidiary	50%	Consolidation
Magnequench, LLC	United States	Subsidiary	100%	Consolidation
Magnequench Neo Powders Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Magnequench International, LLC	United States	Subsidiary	100%	Consolidation
Xin Bao Investment Limited	Hong Kong	Subsidiary	100%	Consolidation
Magnequench (Tianjin) Company Limited	China	Subsidiary	100%	Consolidation
Magnequench Limited	Barbados	Subsidiary	100%	Consolidation
Neo Performance Materials (Beijing) Co., Ltd.	China	Subsidiary	100%	Consolidation

	Place of business	Entity type	Economic interest	Method
Magnequench International Trading (Tianjin) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench GmbH	Germany	Subsidiary	100%	Consolidation
Neo Performance Materials Korea Inc.	Korea	Subsidiary	100%	Consolidation
MCP Canada Limited Partnership	Canada	Subsidiary	100%	Consolidation
Neo Magnequench Distribution, LLC	United States	Subsidiary	100%	Consolidation
Toda Magnequench Magnetic Material (Tianjin) Co., Ltd.	China	Joint venture	33%	Equity method
Gan Zhou Ke Li Rare Earth New Material	China	Joint venture	25%	Equity method
GQD Special Material (Thailand) Co., Ltd.	Thailand	Joint venture	20%	Equity method

2.2.3 Transactions eliminated on consolidation

Inter-company transactions, balances, and any unrealized income and expenses arising from transactions between group companies are eliminated. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of the Company's interest in the associates. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Functional currency

The combined carve-out financial statements are presented in United States dollars ("U.S. dollars" or "USD"), which is the functional currency of the Company. The functional currency of the Group's significant subsidiaries are the currencies of the primary economic environment and the business processes of the subsidiaries and include USD, Chinese Renminbi and Japanese Yen. The subsidiaries with functional currencies other than U.S. dollars are: Jiangyin Jia Hua Advanced Material Resources Co., Ltd. ("JAMR"), Neo Japan, Inc. ("Neo Japan"), Magnequench International Trading (Tianjin) Co., Ltd, Magnequench (Tianjin) Company Limited, and Shanxi Jia Hua Galaxy Electronics Materials Co., Ltd.

2.3.1 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

2.3.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into U.S. dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into the U.S. dollars at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in OCI and accumulated in the translation reserve as part of Parent's Net Investment, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Company disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Company disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

2.4 Segment reporting

Neo's reporting segments are determined based on the Company's product lines, which are the basis on which the Company's chief operating decision maker evaluates the performance of the business. The Company operates within three principal segments – C&O, Magnequench and Rare Metals. Discrete operating and financial information is available for these principal segments and is used to determine operating performance for each segment and to allocate resources.

Each of the operating segments is managed separately as each of these product lines requires different technologies, resources and marketing approaches. All inter-segment transactions between the segments have been eliminated on consolidation.

2.5 Revenue recognition

Revenue is comprised of the sale of goods and the rendering of services.

Revenue is measured at the fair value of the consideration received or receivable from the sale of goods, net of inter-company sales, value-added tax, and estimated customer returns and allowances at the time of recognition. The estimates of fair value are based on the Company's historical experience with each customer and the specifics of each arrangement.

Revenue from the sale of manufactured products is recognized when the risks and rewards of ownership have transferred to the buyer (which generally occurs upon shipment) and collectability of the related receivables is probable. Revenue is recognized when: (i) it can be measured reliably; (ii) it is probable that the economic benefits associated with the transaction will flow to the entity; (iii) the costs incurred or to be incurred can be measured reliably and; (iv) when the criteria for each of the Company's different activities has been met. These activity-specific recognition criteria are based on the goods or services provided to the customer and the contract conditions in each case.

2.6 Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin.

2.7 Goodwill

Under the acquisition method of accounting, the costs of business combinations are allocated to the assets acquired and liabilities assumed based on the estimated fair value at the date of acquisition. The excess of the fair value of consideration paid over the fair value of the identifiable net assets acquired is recorded as goodwill. Goodwill is not amortized; instead it is tested for impairment on an annual basis and is carried at cost less accumulated impairment losses.

At the date of acquisition, goodwill is assigned to the Cash Generating Unit ("CGU") or group of CGUs that is expected to benefit from the synergies of the business combination. For the purpose of impairment testing, goodwill is allocated to the Company's operating segments, which are the individual divisions and corresponds to the level at which goodwill is internally monitored by the Chief Operating Decision Maker ("CODM"). The recoverable amount of an operating segment or CGU, is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. A goodwill impairment is recognized for any excess of the carrying amount of the CGU (or group of CGUs) over its recoverable amount.

Goodwill impairment charges are recognized in profit or loss and are not reversible in future periods.

2.8 Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives on a straight-line basis, ranging from 4 to 40 years for buildings and 2 to 20 years for machinery and equipment. As no finite useful life for land can be determined, related carrying amounts are not depreciated. Consistent with IAS 16, "significant components" with different useful lives from the original asset purchased or constructed are identified and depreciated using a representative useful life. Generally, maintenance and repairs are charged to expense as incurred. However, "major overhauls and replacements" are capitalized to the statements of financial position as a separate component, with the replaced part or previous overhaul derecognized from the combined carve-out statements of financial position and recorded in the combined carve-out statements of profit or loss.

Construction in progress is not depreciated until put into use. Costs are only capitalized if the cost is directly attributable to the construction or development of the assets and may include:

- costs of employee benefits arising from the construction or acquisition of the item of property, plant and equipment;
- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- professional fees.

Reviews for impairment of properties in production and under development are conducted on an at least annual basis to determine indications that the carrying amount exceeds the recoverable amount. The carrying values of property, plant and equipment, which exceed their recoverable amounts, are written down to their recoverable amount and are recognized in the combined carve-out statements of profit or loss (see impairment section below).

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in the combined carve-out statements of profit or loss within other income or expense.

2.9 Intangible assets

Intangible assets acquired by way of an asset acquisition or business combination are recognized if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably on initial recognition. Neo's intangible assets consist primarily of license agreements, customer relationships and trade name. Upon acquisition, customer relationships and license agreements are measured initially at fair value and are amortized on a straight-line basis over the period of the associated agreement or legal title: 5 years for license agreements and 15 years for customer relationship. Amortization has been included within depreciation and amortization expenses in the combined carve-out statements of profit or loss. For any trade name with indefinite life, its initial fair value recorded at acquisition will not be amortized but will be reviewed for impairment on an annual basis.

Reviews for impairment of definite life intangible assets are conducted whenever facts or circumstances indicate that the carrying amount may exceed its recoverable amount.

2.10 Leases

Leases are classified as finance leases if the Company bears substantially all risks and rewards of ownership of the leased asset. At the inception of the lease, the related asset is recognized at the lower of fair value and the present value of the minimum lease payments and a corresponding amount is recognized as a finance lease obligation. Lease payments are split between finance charges and the reduction of the finance lease obligation to achieve a constant proportion of the capital balance outstanding. Finance charges are charged to net income over the lease term.

All other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the term of lease term.

2.11 Impairment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows. As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit (“CGU”) level.

Goodwill is allocated to CGUs or groups of CGUs for impairment testing purposes based on the level at which management monitors it, which is not higher than an operating segment. The allocation is made to those CGUs or group of CGUs that are expected to benefit from synergies of the related business combination in which the goodwill arises.

Corporate head office assets and expenses are proportionately allocated to CGUs or groups of CGUs based on revenues.

CGUs, to which goodwill has been allocated, are tested for impairment at least annually and whenever there is an indication that the unit may be impaired. This testing is done by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell.

To determine the value-in use, management estimates expected future cash flows from each CGU and determines a suitable discount rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Company’s latest approved budget, adjusted as necessary to exclude the effects of future reorganizations and asset enhancements. Discount factors are determined individually for each CGU and reflect their respective risk profiles as assessed by management.

Impairment losses for a CGU are first allocated to reduce the carrying amount of goodwill allocated to that CGU and the remainder is allocated to other assets of the unit on a pro rata basis. Goodwill impairment losses are not reversed.

Non-financial assets with finite lives are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, non-financial assets that are not amortized are subject to an annual impairment assessment. Any impairment loss is recognized for the amount by which the asset’s carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate. The Company evaluates impairment losses for potential reversals, other than goodwill impairment, when events or changes in circumstances warrant such consideration.

2.12 Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transaction costs, except for financial assets and financial liabilities carried at fair value through profit or loss, which are measured initially at fair value.

Financial assets and financial liabilities are measured subsequently as described below.

2.12.1 Financial assets

For the purpose of subsequent measurement, non-derivative financial assets are classified into the following categories upon initial recognition:

- Loans and receivables;
- Financial assets at fair value through profit or loss;
- Available-for-sale financial assets; or
- Held-to-maturity financial assets.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

2.12.1.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortized cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Company’s trade and other receivables fall into this category of financial instruments.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counter party and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group. Impairment of trade receivables are presented within selling, general & administrative expenses.

2.12.1.2 Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The Company may designate financial assets as fair value through profit or loss based on the nature and timing of when those financial assets may be settled. Financial assets which management holds the ability to settle in cash within the near term (1 year) are usually designated as fair value through profit or loss. Examples include, but are not limited to cash, investments in short term money market funds, bankers' acceptance notes and derivative instruments. Designating financial assets of this nature as fair value through profit or loss will significantly reduce recognition inconsistencies by capturing gains and losses in the period which they occurred.

Assets in this category are measured at fair value with gains or losses recognized in profit or loss. The fair values of derivative financial instruments are determined by reference to active market transactions or using a valuation technique where no active market exists.

2.12.1.3 Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. Assets in this category are measured at fair value with gains or losses recognized in OCI, unless the asset is impaired in which case the losses are recognized in profit or loss.

2.12.2 Financial liabilities

The Company's financial liabilities include borrowings, trade, and other payables.

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at fair value through profit or loss, that are carried subsequently at fair value with gains or losses recognized in profit or loss.

All derivative financial liabilities that are not designated and effective as hedging instruments are accounted for at fair value through the combined carve-out statements of profit or loss.

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in the combined carve-out statements of profit or loss are included within Finance costs, net.

2.13 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using a weighted-average formula. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value.

2.14 Income taxes

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

2.14.1 Current tax

Current tax for each taxable entity is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods. Current tax assets and liabilities are offset only if certain criteria are met.

2.14.2 Deferred tax

Deferred tax is recognized using the balance sheet method in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below.

- Where the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss;

- In respect of taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax assets and unused tax losses can be utilized. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are offset only if certain criteria are met.

2.15 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. Cash equivalents may also include bank notes, as well as short-term money market instruments with terms of maturity less than three months, which can be immediately converted into cash upon acquisition.

2.16 Employee future benefits

The Company provides post-employment benefits through defined benefit plans and defined contribution plans.

2.16.1 Defined benefit plan

The defined benefit plans sponsored by the Company defines the amount of pension benefit that an employee will receive on retirement by reference to length of service and final salary.

Pension and other post-retirement benefits earned by employees are actuarially determined on an annual basis by independent actuaries using the projected unit credit method and based on assumptions such as the expected return on plan assets, retirement ages of employees and expected health care trend rate. Fair value is used to value the plan assets for the purpose of calculating the expected return on plan assets. Actual results may differ from results which are estimated based on assumptions. Past service cost arising from plan amendments are recognized immediately in the combined carve-out statements of profit or loss.

The asset or liability recognized in the combined carve-out statements of financial position is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses are recognized in other comprehensive income in the period incurred.

2.16.2 Defined contribution benefits

A defined contribution plan is a pension plan under which the Company pays fixed contributions into an independent entity. The Company has no legal or constructive obligations to pay further contributions after its payment of the fixed contribution. Payments to defined contribution plans are expensed in the combined carve-out statements of profit or loss in the period during which services are rendered by employees.

2.17 Significant management judgment in applying accounting policies

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

2.17.1 Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on the Company's expectation of future profitability by legal entity adjusted for significant non-taxable income and expenses as well as limits to the use of loss carry-forwards or other tax credits. If a positive forecast of taxable income indicates the probable future use of a deferred tax asset, it is usually recognized in full. Recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

2.17.2 Impairment

An impairment loss is recognized for the amount by which an asset's or CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in use, management estimates expected future cash flows from each

asset or CGU and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

2.17.3 Business combinations

On initial recognition, the identifiable assets and liabilities of the acquired business are included in the combined carve-out statements of financial position at their fair values. In measuring fair value management uses estimates about future cash flows and discount rates. Any measurement changes from initial recognition would affect the measurement of goodwill.

2.17.4 Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At August 30, 2016, December 31, 2015 and December 31, 2014, management assessed that the useful lives represented the expected utility of the assets to the Company.

2.17.5 Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the time the estimates are made. The Company's core business is subject to changes in foreign policies and internationally accepted metal prices which may cause selling prices to change rapidly.

2.17.6 Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated and it is probably that an outflow of economic benefits will be required to settle the obligation. Timing or amount of the outflow may still be uncertain. Management estimates the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

2.17.7 Defined benefit pension liability

Management estimates the defined benefit pension liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of the defined benefit pension liability is based on estimated retirement ages, medical cost trends and mortality. It also takes into account the Company's specific anticipation of future salary increases. Discount factors are determined based on matching the plan's projected cash flow with the independent actuaries' Discount Yield Curve. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future estimates of the Company's defined benefit pension obligations.

2.17.8 Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes to these financial statements regarding financial assets and liabilities. In applying the valuation techniques management makes use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

NOTE 3 RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Pronouncements in 2016

The following accounting pronouncements issued by the IASB were not effective for the Company as of August 30, 2016 and therefore have not been applied in preparing these carve-out combined financial statements. The Company intends to adopt these standards, if applicable, when they become effective.

IAS 7 – Statement of Cash Flows

On January 7, 2016, the IASB released amendments to IAS 7 – Statement of Cash Flows (“IAS 7”). IAS 7 requires entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. IAS 7 will be effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company does not expect the adoption of this standard to have a material impact on its combined carve-out financial statements.

IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9 (2014) (“IFRS 9”). IFRS 9 provides guidance on the classification and measurement of financial assets and liabilities, impairment of financial assets, and general hedge accounting. The classification and measurement portion of the

standard determines how financial assets and financial liabilities are accounted for in financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. In addition, IFRS 9 includes a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company is currently assessing the potential impact of this standard; however, based on initial assessment, the Company does not expect the adoption of this standard to have a material impact on the classification and measurement of its financial assets and liabilities in its combined carve-out financial statements. With respect to impairment of financial assets, the Company has commenced to assess its impact and expects to complete the assessment and the implementation in the fourth quarter of 2017.

IFRS 15 – Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 (“**IFRS 15**”). IFRS 15 will replace IAS 18 – Revenue, IAS 11 – Construction Contracts and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall in the scope of other IFRS standards. In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard’s requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity’s ordinary activities. IFRS 15 is to be applied on either a full or modified retrospective approach and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

The Company has commenced its assessment to determine which segments and revenue streams will be impacted. In addition, transition options and choice of practical expedients will be assessed and determined. The Company expects to complete the assessment and implementation in the fourth quarter of 2017.

The Company expects to disclose additional detailed information, including its transition method, any practical expedients elected and estimated quantitative financial effects prior to the adoption of IFRS 15 in the fourth quarter of 2017.

IFRS 16 – Leases

On January 13, 2016 the IASB issued IFRS 16 – Leases (“**IFRS 16**”). IFRS 16 supersedes IAS 17 – Leases, IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC-15 – Operating Leases – Incentives and SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. IFRS 16 has an effective date of January 1, 2019, with early application permitted only if IFRS 15 has also been adopted. Management is currently assessing the impact of this standard on its combined carve-out financial statements and expects to complete the assessment in the next few months.

IFRIC 22 – Foreign Currency Transactions and Advance Consideration

On December 8, 2016, the IASB issued IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Consideration (“**IFRIC 22**”). IFRIC 22 is applicable for annual periods beginning on or after January 1, 2018, and permits early adoption. IFRIC 22 clarifies which date should be used for translation when a foreign currency transactions involves an advance payment or receipt. IFRIC 22 clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. The Company intends to adopt this standard in its consolidated financial statements for the annual period beginning on January 1, 2018. The Company has commenced to assess its impact and expects to complete the assessment in the fourth quarter of 2017.

Annual Improvement to IFRS Standards (2014 – 2016) Cycle

On December 8, 2016 the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. Each of the amendments has its own specific transition requirements and effective date.

Amendments were made to the following standards:

- Clarification that IFRS 12 Disclosures of Interests in Other Entities also applies to interests that are classified as held for sale, held for distribution, or discontinued operations, effective retrospectively for annual periods beginning on or after January 1, 2017;
- Removal of out-dated exemptions for first time adopters under IFRS 1 First-time Adoption of International Financial Reporting Standards, effective for annual periods beginning on or after January 1, 2018; and
- Clarification that the election to measure an associate or joint venture at fair value under IAS 28 Investments in Associates and Joint Ventures for investments held directly, or indirectly, through a venture capital or other qualifying entity can be made on an investment-by-investment basis. The amendments are effective retrospectively for annual periods beginning on or after January 1, 2018.

The Company intends to adopt these amendments in its financial statements for the annual period beginning on January 1, 2017 or 2018 as applicable. The Company does not expect the amendments to have a material impact on the financial statements.

NOTE 4 ACCOUNTS RECEIVABLE

	August 30, 2016	December 31, 2015	December 31, 2014
Gross trade receivables	\$35,144	\$37,727	\$42,738
Allowance for doubtful accounts	(124)	(119)	(87)
Total	\$35,020	\$37,608	\$42,651

The table below illustrates the aging of accounts receivable which are past due:

	August 30, 2016	December 31, 2015	December 31, 2014
Less than three months	3,162	4,534	4,093
More than three months but less than six months	245	39	537
More than six months but less than one year	12	—	170
More than one year	32	53	—
Total	\$3,451	\$4,626	\$4,800

All of the Company's accounts receivable are short-term. The net carrying value of accounts receivable is considered a reasonable approximation of fair value. The Company reviews all amounts periodically for indicators of impairment and the amounts impaired have been provided for in the allowance for doubtful account.

The Company's exposure to credit risks and impairment losses related to accounts receivable is disclosed in Note 20.4.

NOTE 5 INVENTORIES

Inventories, stated at the lower of weighted-average cost or net realizable value, consist of the following:

	August 30, 2016	December 31, 2015	December 31, 2014
Raw materials	\$33,051	\$ 41,217	\$ 47,591
Work-in-progress	15,488	23,453	24,182
Finished goods	45,164	45,143	56,799
Supplies	5,239	5,677	5,730
Total	\$98,942	\$115,490	\$134,302

The cost of finished goods manufactured includes appropriate materials, labour and production overhead expenditure.

As of August 30, 2016, a total of \$178.7 million of inventories was included in cost of sales as an expense (December 31, 2015: \$294.7 million; December 31, 2014: \$342.6 million). This includes a provision of \$2.4 million for inventories during the period ended August 30, 2016 (December 31, 2015: \$14.2 million; December 31, 2014: \$6.0 million).

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	Land and Land lease	Building & improvements	Machinery & Equipment	Office equipment	Construction in Progress (net of transfer)	Total
At January 1, 2016						
Cost	\$ 3,735	\$ 62,311	\$ 143,905	\$12,296	\$ 2,633	\$ 224,880
Accumulated depreciation	(576)	(28,275)	(100,143)	(9,485)	—	(138,479)
Net book value	\$ 3,159	\$ 34,036	\$ 43,762	\$ 2,811	\$ 2,633	\$ 86,401
Additions		—	650	154	3,504	4,308
Disposals, net of cost and accumulated depreciation		(12)	(6)	(60)	—	(78)
Transfers	(291)	690	2,649	122	(3,170)	—
Currency translation	(31)	(300)	(297)	(50)	(7)	(685)
Other	—	—	—	(35)	(20)	(55)
Depreciation expense	(21)	(2,246)	(5,585)	(723)	—	(8,575)
Closing net book value at August 30, 2016	\$ 2,816	\$ 32,168	\$ 41,173	\$ 2,219	\$ 2,940	\$ 81,316
Comprised of:						
Cost	\$ 3,413	\$ 63,105	\$ 146,749	\$12,166	\$ 2,940	\$ 228,373
Accumulated depreciation	(597)	(30,937)	(105,576)	(9,947)	—	\$(147,057)

	<u>Land and Land lease</u>	<u>Building & improvements</u>	<u>Machinery & Equipment</u>	<u>Office equipment</u>	<u>Construction in Progress (net of transfer)</u>	<u>Total</u>
At January 1, 2015						
Cost	\$11,584	\$ 69,200	\$ 158,921	\$15,030	\$ 4,234	\$ 258,969
Accumulated depreciation	(545)	(24,923)	(92,487)	(8,710)	—	(126,665)
Net book value	\$11,039	\$ 44,277	\$ 66,434	\$ 6,320	\$ 4,234	\$ 132,304
Additions	—	221	1,673	279	7,154	9,327
Disposals, net of cost and accumulated depreciation	—	(101)	(643)	(110)	—	(854)
Transfers	—	2,731	5,403	13	(8,147)	—
Currency translation	(64)	(654)	(660)	(75)	361	(1,092)
Effect of change in functional currency	386	1,780	2,199	51	(3)	4,413
Impairment	(8,171)	(9,558)	(19,046)	(2,506)	—	(39,281)
Other	—	—	(75)	—	(966)	(1,041)
Depreciation expense	(31)	(4,660)	(11,523)	(1,161)	—	(17,375)
Closing net book value at December 31, 2015	\$ 3,159	\$ 34,036	\$ 43,762	\$ 2,811	\$ 2,633	\$ 86,401
Comprised of:						
Cost	\$ 3,735	\$ 62,311	\$ 143,905	\$12,296	\$ 2,633	\$ 224,880
Accumulated depreciation	(576)	(28,275)	(100,143)	(9,485)	—	(138,479)

	<u>Land and Land lease</u>	<u>Building & improvements</u>	<u>Machinery & Equipment</u>	<u>Office equipment</u>	<u>Construction in Progress (net of transfer)</u>	<u>Total</u>
At January 1, 2014						
Cost	\$11,285	\$ 67,747	\$ 156,059	\$14,651	\$ 1,766	\$ 251,508
Accumulated depreciation	(514)	(20,337)	(80,878)	(7,729)	—	(109,458)
Net book value	\$10,771	\$ 47,410	\$ 75,181	\$ 6,922	\$ 1,766	\$ 142,050
Additions	—	728	1,957	630	4,891	8,206
Disposals, net of cost and accumulated depreciation	—	(7)	(401)	(12)	—	(420)
Transfers	—	872	2,505	541	(3,918)	—
Currency translation	(1,150)	(2,789)	(3,716)	(36)	(72)	(7,763)
Effect of change in functional currency	1,449	3,113	7,177	—	—	11,739
Impairment	—	—	(503)	(37)	(31)	(571)
Other	40	—	(177)	(7)	(35)	(179)
Depreciation expense	(71)	(5,050)	(15,589)	(1,681)	1,633	(20,758)
Closing net book value at December 31, 2014	\$11,039	\$ 44,277	\$ 66,434	\$ 6,320	\$ 4,234	\$ 132,304
Comprised of:						
Cost	\$11,584	\$ 69,200	\$ 158,921	\$15,030	\$ 4,234	\$ 258,969
Accumulated depreciation	(545)	(24,923)	(92,487)	(8,710)	—	(126,665)

NOTE 7 INTANGIBLE ASSETS

The Company's intangible assets consist primarily of customer relationships, tradename, patents, license agreements and land use rights. The following table illustrates the carrying amounts of the Company's intangibles:

	<u>Customer Relationships</u>	<u>Trade name</u>	<u>Other</u>	<u>Total</u>
At January 1, 2016				
Cost	\$70,562	\$6,000	\$ 819	\$77,381
Accumulated amortization	—	—	(491)	\$ (491)
Net book value	<u>\$70,562</u>	<u>\$6,000</u>	<u>\$ 328</u>	<u>\$76,890</u>
Additions	—	—	—	—
Currency translation adjustments	(1,249)	—	—	(1,249)
Amortization expense	(3,511)	—	(109)	(3,620)
Balance – August 30, 2016	<u>\$65,802</u>	<u>\$6,000</u>	<u>\$ 219</u>	<u>\$72,021</u>
Comprised of:				
Cost	\$69,274	\$6,000	\$ 819	\$76,093
Accumulated amortization	(3,472)	—	(600)	(4,072)

	<u>Customer Relationships</u>	<u>Patents</u>	<u>Trade name</u>	<u>Land use rights</u>	<u>Other</u>	<u>Total</u>
At January 1, 2015						
Cost	\$ 223,700	\$ 152	\$14,800	\$ 3,200	\$ 4,449	\$ 246,301
Accumulated amortization	(28,880)	(152)	—	(304)	(1,479)	(30,815)
Net book value	<u>\$ 194,820</u>	<u>\$ —</u>	<u>\$14,800</u>	<u>\$ 2,896</u>	<u>\$ 2,970</u>	<u>\$ 215,486</u>
Additions	—	—	—	—	—	—
Currency translation adjustments	(3,134)	—	—	(33)	(4)	(3,171)
Impairment	(105,472)	—	(8,800)	(2,758)	(1,989)	(119,019)
Other	—	—	—	—	(36)	(36)
Amortization expense	(15,652)	—	—	(105)	(613)	(16,370)
Balance – December 31, 2015	<u>\$ 70,562</u>	<u>\$ —</u>	<u>\$ 6,000</u>	<u>\$ —</u>	<u>\$ 328</u>	<u>\$ 76,890</u>
Comprised of:						
Cost	\$ 70,562	\$ —	\$ 6,000	\$ —	\$ 819	77,381
Accumulated amortization	—	—	—	—	(491)	(491)
At January 1, 2014						
Cost	\$ 347,701	\$ 152	\$14,800	\$ 3,568	\$ 4,420	\$ 370,641
Accumulated amortization	(36,128)	(27)	—	(227)	(862)	(37,244)
Net book value	<u>\$ 311,573</u>	<u>\$ 125</u>	<u>\$14,800</u>	<u>\$ 3,341</u>	<u>\$ 3,558</u>	<u>\$ 333,397</u>
Additions	—	—	—	—	37	37
Currency translation adjustments	(1,172)	—	—	—	(8)	(1,180)
Effect of change in functional currency	177	—	—	—	—	177
Impairment	(92,739)	—	—	(368)	—	(93,107)
Amortization expense	(23,019)	(125)	—	(77)	(617)	(23,838)
Balance – December 31, 2014	<u>\$ 194,820</u>	<u>\$ —</u>	<u>\$14,800</u>	<u>\$ 2,896</u>	<u>\$ 2,970</u>	<u>\$ 215,486</u>
Comprised of:						
Cost	\$ 223,700	\$ 152	\$14,800	\$ 3,200	\$ 4,449	\$ 246,301
Accumulated amortization	(28,880)	(152)	—	(304)	(1,479)	(30,815)

As of December 31, 2014 as a result of lower long-term growth prospects, the Company recognized an impairment loss of approximately \$93.1 million related to certain customer relationships reported under our C&O and Rare Metals segments. The Company updated the fair value estimate of these customer relationships based on the income approach using certain unobservable inputs, including a customer attrition rate of approximately 13%.

As of December 31, 2015, as a result of continued softness in rare earth pricing, the Company recognized an impairment loss of approximately \$119.0 million, mainly related to customer relationships. Associated with the Chapter 11 Cases, the fair value of the trade name was determined to be \$6.0 million, resulting in an impairment loss of \$8.8 million. The Company updated the fair value estimate of its customer relationships based on the income approach using certain unobservable inputs, including customer attrition rates ranging between 6.5%-13%.

As of August 30, 2016, there were no additional impairment losses required to be recorded. The fair value estimate was based on the income approach using certain unobservable inputs, including growth rates of 5%-15%.

NOTE 8 GOODWILL

	August 30, 2016	December 31, 2015	December 31, 2014
Opening balance – January 1	\$53,758	\$102,808	\$ 228,750
Currency translation adjustments	(1,220)	(3,422)	2,626
Impairment	—	(45,628)	(128,568)
Ending balance	<u>\$52,538</u>	<u>\$ 53,758</u>	<u>\$ 102,808</u>

For the purpose of impairment testing, goodwill is allocated to the following CGU groups:

	August 30, 2016	December 31, 2015	December 31, 2014
Magnequench	\$52,538	\$99,386	\$102,808
C&O	—	—	127,855
Rare Metals	—	—	713
Total	<u>\$52,538</u>	<u>\$99,386</u>	<u>\$231,376</u>

As part of the annual goodwill impairment test, the Company performed goodwill impairment testing at December 31, 2014 for all of its CGUs in accordance with its policy and based on conditions at that date. The Company recognized an impairment charge of \$127.9 million to write-off the carrying amount of the C&O goodwill. This impairment was driven by the Company's revised cash flows projections reflecting the declining market demand for lighting phosphor products, and the continuing softness in the prices of products sold at the Company's C&O division. Also as of December 31, 2014, the Company recognized an impairment charge of approximately \$0.7 million at Rare Metals to write-off the remaining goodwill associated with rare metals production at the Silmet facility. Finally, the Company determined that the fair value of the Magnequench segment exceeded its carrying amount by approximately 10% as of December 31, 2014.

As part of the annual goodwill impairment test performed at December 31, 2015, the Company recognized an impairment charge of \$45.6 million related to the goodwill of the Magnequench CGU.

The recoverable amounts of the groups of CGUs were determined on the basis of value-in-use, covering a detailed cash flow forecast based on the five-year budget. The forecasted cash flows are then discounted to calculate the present value of the cash flows expected to be derived from the groups of CGUs that are being tested for impairment annually. This approach involves estimates and assumptions about revenue growth rates, operating margins, tax rates and discount rates.

1. **The revenue growth rate over planning period** is determined based on management's past experience in the industry, and ranged from 5.5% to 9.9% is based on the Company's financial plan approved by the Board. The cash flow forecasts at the end of the planning period were extrapolated using an estimated long term growth rate of 2.0%
2. **The discount rate** is assumed in order to calculate the present value of the projected cash flows of the CGUs. A first indication for appropriate asset-specific discount rate is the weighted average cost of capital ("WACC") of the business. The WACC is adjusted to reflect the specific risk profile of the respective CGUs. The Company has derived the WACC based on capital market data which involves separate analysis of the cost of equity and cost of debt, and taking into consideration the market risk premium related to each CGU. The discount rate ranged from 10.2% to 12.7%.

The Company has applied a higher discount rate to CGUs with more volatile cash flows due to participation in competitive markets and unstable customer demand, and lower discount rate to CGUs with less volatile cash flows due to their market position and maturity of the market they serve.

NOTE 9 INVESTMENTS

The Company holds a 25% ownership interest in Ganzhou Keli Rare Earth New Material Co., Ltd. ("**Keli**"), a company which converts rare earth oxides into metals for use in Magnequench Powders.

The Company holds a 33% investment in Toda Magnequench Magnetic Materials Co. Ltd. ("**TMT**"), which produces rare earth magnetic compounds with Magnequench Powders supplied by Magnequench (Tianjin) Company Limited ("**MQTJ**") in its normal course of business.

The Company also holds a 50% ownership interest in Ingal Stade GmbH ("**Ingal Stade**", a German joint venture involved in the extraction of gallium metal ("**GaM**") from alumina smelter bayer liquor with purity level of 5N (99.999%) or higher. In December 2014, the Company decided to cease purchasing GaM from Ingal Stade because the joint venture can no longer provide this metal at a competitive price. Since the purchase of GaM at a competitive price was the main value proposition of the Company's investment in Ingal Stade, as of December 31, 2014, the Company recognized a charge of \$4.9 million in "Equity loss of associates" in the combined carve-out statements of profit or loss to write-off the balance of its investment in Ingal Stade.

	Country of Incorporation or Registration	Percentage Share Holdings
Keli	China	25%
TMT	China	33%
Ingal Stade	Germany	50%

Aggregate financial information of equity accounted associates is provided below:

	August 30, 2016	December 31, 2015	December 31, 2014
Total revenue	\$126,493	\$153,358	\$188,456
Share of revenue in associates	31,814	38,682	49,308
Net income (loss)	984	(2,796)	(2,161)
Share of income (loss) in associates	238	(702)	(527)
	August 30, 2016	December 31, 2015	December 31, 2014
Current assets	\$76,983	\$66,293	\$68,085
Non-current assets	5,448	5,845	6,267
Total assets of associates	\$82,431	\$72,138	\$74,352
Current liabilities	\$52,503	\$42,182	\$40,903
Total liabilities of associates	\$52,503	\$42,182	\$40,903

Investments accounted for using the equity method

	TMT	Keli	Ingal Stade	Total
Carrying value at December 31, 2013	\$1,838	\$ 7,160	\$ 4,937	\$13,935
Shares of results in associates	158	(634)	(51)	(527)
Dividend received from associates	—	(2,014)	—	(2,014)
Impairment	—	—	(4,886)	(4,886)
Carrying value at December 31, 2014	\$1,996	\$ 4,512	\$ —	\$ 6,508
Shares of results in associates	(11)	(691)	—	(702)
Carrying value at December 31, 2015	\$1,985	\$ 3,821	\$ —	\$ 5,806
Shares of results in associates	(32)	270	—	238
Carrying value at August 30, 2016	<u>\$1,953</u>	<u>\$ 4,091</u>	<u>\$ —</u>	<u>\$ 6,044</u>

Other investments include a \$0.7 million investment in GQD Special Material (Thailand) Co., Ltd. (“GQD”) and \$0.8 million investment in Vive Technologies (“Vive”).

NOTE 10 DEBT AND FINANCING

The following table provides a summary of the current and non-current portions of the Company’s debt at August 30, 2016, December 31, 2015 and 2014:

	August 30, 2016		December 31, 2015		December 31, 2014	
	Current	Non-current	Current	Non-current	Current	Non-current
Bank loans	\$ 7,539	\$ 5	\$ 10,518	\$ 34	\$9,176	\$ 91
2014 Financings	95,570	—	91,413	—	—	50,742
5% Debentures, net of discount	—	1,745	—	1,787	—	2,076
Total Debt	\$103,109	\$1,750	\$101,931	\$1,821	\$9,176	\$52,909

10.1 Bank advances, short-term loan and debt

10.1.1 Chinese bank advances

As at August 30, 2016, one of the subsidiaries in China had drawn \$3.0 million (Renminbi 20.0 million) on its line of credit from a domestic bank. This loan will mature in January 2017 and bears interest at 4.35% per annum. The \$3.0 million (Renminbi 20.0 million) drawn has been subsequently repaid in January 2017. As of August 30, 2016, one of the Chinese subsidiaries has an undrawn line of credit of approximately \$16.5 million (Renminbi 110.0 million).

10.1.2 German debt facility

As at August 30, 2016, one of the subsidiaries in Germany has a \$7.8 million (€7.0 million) revolving line of credit which can be drawn either in Euro or U.S. dollar. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate (“Euribor”) average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling partner of Buss & Buss amounting to \$0.3 million (€0.25 million) as well as a lien amounting to \$0.6 million (€0.5 million) on certain property, plant and equipment. The remainder of the revolving line of credit is secured by certain working capital of Buss & Buss.

As at August 30, 2016, \$1.1 million (€1.0 million) was drawn on the revolving line of credit.

There are no financial covenants which need to be met.

10.1.3 German bank advances

As at August 30, 2016, Buss & Buss has borrowed in aggregate, \$0.03 million (€0.025 million) as well as \$2.8 million (€2.5 million) consequently reducing the available debt facility from a German bank as mentioned above in Note 10.1.2. These loans will mature between January to June 2017. The repayment is based on fixed installments of quarterly or semi-annual payments. The interest rate is 0.96% and 2.25% for these two loans, respectively.

Buss & Buss is committed to meet, amongst others, the following financial covenants, calculated based on financial results prepared in accordance with German GAAP:

- the equity rate needs to be a minimum of 40%,
- no change in ownership of the shares in the company
- requirement to inform the bank if securities of a higher quality are provided for similar bank advances from other banks.

10.2 2014 Financing

In August 2014, Molycorp entered into a commitment letter with Oaktree Capital Management L.P. (“**Oaktree**”) to provide Molycorp and its’ subsidiaries up to \$400 million in secured financing (the “**2014 Financing**”). On September 11, 2014 (the “**closing date**”), the Company received a term loan facility of \$75.0 million (the “**Magnequench Term Loan**”) from the 2014 Financing, \$60.0 million of which was advanced on the closing date and \$15.0 million of delayed draw term loans to be advanced, subject to the satisfaction of certain conditions, in minimum amounts of \$5.0 million after the closing date and until April 30, 2016. Proceeds from the Magnequench Term Loan were used to satisfy certain inter-company obligations of Magnequench, Inc. and to make certain inter-company loans. The debt was secured by the assets of the Magnequench operations.

Interest rates on the Magnequench Term Loan are: (i) from the closing date through June 14, 2016, 7.00% per year payable in cash and 5.00% per year payable in kind (“**PIK interest**”) and (ii) from June 15, 2016, and thereafter, 12.00% per year payable in cash. The daily average unused amount of the delayed draw Term Loans commitment for the Term Loans is subject to an unused commitment enhancement payment of 1.00% per year.

The Company could not make any voluntary prepayments on the Magnequench Term Loan prior to the fourth anniversary of the closing date. In addition, any prepayment of the loans, any repayment (or other satisfaction) of the loans after acceleration, but prior to September 11, 2019, as well as in any event of default on failure to make payments and involuntary or voluntary bankruptcy, were subject to an early payment premium (“**EPP**”) of (i) 43.8% of the principal amount so prepaid if paid prior to the first anniversary of the closing date, (ii) 33.7% of the principal amount so prepaid if paid on or after the first anniversary of the closing date but prior to the second anniversary of the closing date, (iii) 23.0% of the principal amount so prepaid if paid on or after the second anniversary of the closing date but prior to the third anniversary of the closing date, (iv) 11.5% of the principal amount so prepaid if paid on or after the third anniversary of the closing date but prior to the fourth anniversary of the closing date, and (v) 3.0% of the principal amount so prepaid if paid on or after the fourth anniversary of the closing date. Any mandatory prepayment of the loans resulting from an asset sale were subject to an EPP of 3.0% of the principal amount so prepaid.

The Magnequench Term Loan maturity date was September 11, 2019, with springing maturity dates at (i) April 30, 2016 and (ii) March 31, 2017, if the Company was not able to repay or escrow an amount of cash sufficient to repay certain of Molycorp’s debt when due and payable.

The springing maturity dates, in combination with the early payment premiums applicable to any prepayment of the Magnequench Term Loan described above, meet the definition of a derivative that is required to be bifurcated from its host debt instrument. See Note 11 for more information on this derivative.

On June 25, 2015, Magnequench, Inc., the debtor of the Magnequench Term Loan filed for Chapter 11 protection. As a result, the Company recognized a charge of \$27.3 million for the EPP in its carve-out combined statements of profit or loss. See Note 1.3 for a summary of reorganization items. The filing of the Chapter 11 Cases constituted an event of default that accelerated the Magnequench Term Loan for which principal and accrued interest became payable and due immediately upon the commencement of the bankruptcy proceedings. As a result, unamortized deferred financing costs on that date were charged directly to the statements of profit or loss as a charge to reorganization items. However, repayments of the Magnequench Term Loan became subject to the automatic stay as of the Petition Date, and no payments will be made to Molycorp’s creditors unless approved by the Court.

A reconciliation of the principal amount to the net carrying amount of the 2014 Financing at August 30, 2016, December 31, 2015 and 2014 is as follows:

	August 30, 2016	December 31, 2015	December 31, 2014
Principal amount	\$60,000	\$60,000	\$60,000
PIK Interest	8,232	4,075	927
Unamortized debt discount	—	—	(7,121)
Early Payment Premium	27,338	27,338	—
Deferred financing cost	—	—	(3,064)
Net carrying amount	<u>\$95,570</u>	<u>\$91,413</u>	<u>\$50,742</u>

10.3 5% Debentures

On June 2, 2011, the Company completed a public offering (the “Offering”) of \$200 million principal amount of convertible subordinated unsecured debentures (“Debentures”). The Offering was made through a syndicate of underwriters. An over-allotment option to purchase up to an additional \$30 million principal amount of Debentures on the same terms and conditions was granted to the underwriters resulting in an additional \$30 million being raised. The aggregate gross proceeds of \$230 million, net of issuance costs of \$8.6 million, were to be used to fund potential future acquisitions and for general corporate purposes.

The debentures were issued at a price of \$1,000 per debenture and were to mature on December 31, 2017. The debentures carried a 5% coupon and were convertible at \$13.80 per share. This represented a conversion rate of 72.4638 common shares for each \$1,000 principal amount of debentures, which, on conversion, could result in the issuance of 16.7 million common shares.

As a result of Molycorp’s acquisition of Neo (“the Acquisition”) on June 12, 2012, and as required under the change of control provisions contained in the original underlying indenture, holders of the Debentures had the option to either require Molycorp to repurchase the Debentures at par plus accrued interest, convert the Debentures into common shares of Neo’s predecessor company, including a number of additional “make-whole” shares, or hold the Debentures to maturity. In August 2012, holders of \$9.4 million aggregate principal amount of Debentures elected to convert, while holders of \$217.9 million aggregate principal amount of Debentures elected to early redeem their Debentures for cash plus accrued interest.

As at August 30, 2016, \$1.8 million of the Debentures still remained outstanding.

NOTE 11 CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts presented in the combined carve-out statements of financial position relate to the following categories of financial assets and liabilities:

	<u>August 30,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Financial Assets			
Loans and Receivables			
Trade receivables	\$ 35,020	\$ 37,608	\$ 42,651
Account receivables from related parties	—	124,313	103,048
	<u>\$ 35,020</u>	<u>\$161,921</u>	<u>\$145,699</u>
Fair value through profit or loss			
Cash and cash equivalents	\$ 90,316	\$101,302	\$107,678
Total financial assets	<u>\$125,336</u>	<u>\$263,223</u>	<u>\$253,377</u>
Financial Liabilities			
Designated as fair value through profit or loss			
Put option issued to non-controlling interest of Buss & Buss (Derivative liability)	\$ 9,502	\$ 6,074	\$ 6,165
Springing maturity on term loans	—	—	3,970
	<u>\$ 9,502</u>	<u>\$ 6,074</u>	<u>\$ 10,135</u>
Measured at amortized cost			
Current:			
Accounts payable and other accrued charges	77,374	38,779	44,578
Bank advances and other short-term debt	103,109	101,931	9,176
	<u>180,483</u>	<u>140,710</u>	<u>53,754</u>
Non-current:			
Long-term debt excluding deferred financing cost	1,750	1,821	55,973
Borrowings from related parties	8,092	76,631	103,220
	<u>9,842</u>	<u>78,452</u>	<u>159,193</u>
Total financial liabilities	<u>\$199,827</u>	<u>\$225,236</u>	<u>\$223,082</u>

11.1 Derivative liability

The Company’s derivative liability is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss Spezialmetalle GmbH (“Buss & Buss”). The derivative is measured at fair value.

	<u>Buss & Buss put option</u>
Fair value, December 31, 2013	\$6,089
Movement in fair value	<u>76</u>
Fair value, December 31, 2014	\$6,165
Movement in fair value	<u>(91)</u>
Fair value, December 31, 2015	\$6,074
Movement in fair value	<u>3,428</u>
Fair value August 30, 2016	<u>\$9,502</u>

The Buss & Buss put option is related to a share purchase agreement (“SPA”) between NMT Holding GmbH (“NMT”), a German subsidiary of the Company, and the shareholders of Buss & Buss entered into May 27, 2010. The SPA includes a call and a put option on shares of the remaining shareholder and his legal successors. If the call option is exercised by the Company, a premium is added to the consideration to purchase the underlying shares in Buss & Buss. If the put option is exercised by the remaining shareholder or his legal successors, a discount will reduce the cost basis of the securities sold to the Company. Although, the final amount of the put option is not known, the initial fair value of this obligation has been determined by a third party valuator based on information currently available. The liability is subsequently re-measured at each reporting period with the change in fair value recorded in the combined carve-out statements of profit or loss.

11.4 Financial liabilities carried at amortized cost

Fair values of long-term financial liabilities have been determined by calculating their present values at the reporting date, using fixed effective market interest rates available to the Company.

11.5 Financial assets and liabilities measured at fair value

The following table presents financial assets and liabilities measured at fair value in the combined carve-out statements of financial position in accordance with the fair value hierarchy. It does not include financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the combined carve-out statements of financial position are grouped into the fair value hierarchy as follows:

	<u>August 30, 2016</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial Assets:			
Cash and cash equivalents	\$90,316	\$ —	\$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	—	—	9,502
	<u>December 31, 2015</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial Assets:			
Cash and cash equivalents	\$101,302	\$—	\$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	—	—	6,074
	<u>December 31, 2014</u>		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial Assets:			
Cash and cash equivalents	\$107,678	\$—	\$ —
Financial Liabilities:			
Springing maturity on term loans	—	—	3,970
Put option issued to non-controlling interest of Buss & Buss	—	—	6,165

The Springing Maturity on the Magnequench Term Loan is a derivative liability bifurcated from the Magnequench Term Loan issued on September 11, 2014 in conjunction with the 2014 Financings, as described in Note 10.2. The technique used to fair value the Springing Maturity on Magnequench Term Loan is the income approach based on a discounted cash flow model using significant unobservable inputs, including a probability factor of 10% representing the likelihood that the first of springing maturity dates would be triggered. The change in fair value of the Springing Maturity on Magnequench Term Loans for the period from September 11, 2014 to December 31, 2014 resulted in a loss of approximately \$3.0 million, which was recorded as finance costs, net, in the Company’s combined carve-out statements of profit or loss. On the Petition Date, as a result of the event of the default on the Term Loans triggering the early repayment premium, the fair value of the springing maturity liability was determined to be nil. The Company recognized a gain on the fair value adjustment of approximately \$4.0 million as a reorganization item in the combined carve-out statements of profit or loss. See Note 1.3 for a summary of the reorganization items.

The change in fair value of the Buss & Buss put option resulted in an unrealized loss of \$3.4 million for the period ended August 30, 2016, a nominal unrealized gain for the year ended December 31, 2015, and a nominal unrealized loss for the year ended December 31, 2014, which was recorded as finance costs, net, in the Company’s combined carve-out statements of profit or loss. The technique used to fair value the SPA is the income approach based on a discounted cash flow model using significant unobservable inputs, including an equity-risk premium of 6.0%, a risk premium of 7.1%, a size premium of 3.8% and a growth rate of 1.0%. Changes to these inputs based on reasonably possible alternative assumptions would not significantly change amounts the Company recognized in combined carve-out statements of financial position and of profit or loss.

There have been no transfers in or out of Level 3 in the reporting periods included in these combined carve-out financial statements.

NOTE 12 OPERATING SEGMENTS

The primary metric used to measure the financial performance of each operating segment is adjusted operating income before depreciation and amortization (“**Adjusted OIBDA**”), which provides a better indication of the base-line performance of the Company’s core business operations.

A comparative breakdown of business segment information is as follows:

For the period from January 1 to August 30, 2016:

	<u>Magnequench</u>	<u>Chemicals & Oxides</u>	<u>Rare Metals</u>	<u>Corporate head office</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
External Revenue	\$103,781	\$ 97,100	\$45,937	\$ —	\$246,818	\$ —	\$246,818
Inter-segment revenue	—	8,236	—	—	8,236	(8,236)	—
Total revenue	<u>103,781</u>	<u>105,336</u>	<u>45,937</u>	<u>—</u>	<u>255,054</u>	<u>(8,236)</u>	<u>246,818</u>
Operating income (loss)	<u>18,290</u>	<u>9,335</u>	<u>(3,030)</u>	<u>(10,088)</u>	<u>14,507</u>	<u>1,324</u>	<u>15,831</u>
Other income							1,737
Reorganization items							(2,471)
Finance costs, net							(7,189)
Foreign exchange loss							(4,117)
Income from operations before income taxes and equity income of associates							<u>3,791</u>
Reconciliation to Adjusted OIBDA							
Operating income (loss)	18,290	9,335	(3,030)	(10,088)	14,507	1,324	15,831
Depreciation and amortization	<u>6,064</u>	<u>2,774</u>	<u>3,247</u>	<u>110</u>	<u>12,195</u>	<u>—</u>	<u>12,195</u>
Adjusted OIBDA⁽¹⁾	<u>24,354</u>	<u>12,109</u>	<u>217</u>	<u>(9,978)</u>	<u>26,702</u>	<u>1,324</u>	<u>28,026</u>
Capital expenditures	784	2,398	1,126	—	4,308	—	4,308

(1) Certain items are excluded from operation income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

As at August 30, 2016:

	<u>Magnequench</u>	<u>Chemicals & Oxides</u>	<u>Rare Metals</u>	<u>Corporate head office</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
Total assets	224,590	140,634	83,575	14,120	462,919	(711)	462,208
Investment in equity method associates	6,044	—	—	—	6,044	—	6,044
Total liabilities	(136,206)	(52,454)	(29,593)	(10,977)	(229,230)	4	(229,226)

For the year ended December 31, 2015:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate head office	Total for reportable segments	Eliminations	Total
External Revenue	\$ 182,051	\$147,395	\$ 67,380	\$ —	\$ 396,826	\$ —	\$ 396,826
Inter-segment revenue	3,592	21,041	15	—	24,648	(24,648)	—
Total revenue	185,643	168,436	67,395	—	421,474	(24,648)	396,826
Operating loss	(103,879)	(48,406)	(26,503)	(14,910)	(193,698)	(495)	(194,193)
Other expense							(8,326)
Reorganization items							(32,187)
Finance costs, net							(8,347)
Foreign exchange gain							7,613
Loss from operations before income taxes and equity income of associates							(235,440)
Reconciliation to Adjusted OIBDA							
Operating loss	(103,879)	(48,406)	(26,503)	(14,910)	(193,698)	(495)	(194,193)
Depreciation and amortization	16,265	9,275	8,006	199	33,745	—	33,745
Impairment of goodwill and other long-lived assets ⁽¹⁾	129,668	53,362	20,898	—	203,928	—	203,928
Loss related to Molycorp product ⁽²⁾	—	5,810	—	—	5,810	—	5,810
Adjusted OIBDA⁽³⁾	42,054	20,041	2,401	(14,711)	49,785	(495)	49,290
Capital expenditures	1,452	4,450	3,425	—	9,327	—	9,327

(1) The Company recorded impairment of goodwill and other long-lived assets. The goodwill and intangibles assets impaired were recognized as a result of Molycorp's acquisition of Neo Material Technologies Inc. in 2012.

(2) Losses related to Molycorp's Sorbx product. This loss was excluded as it does not reflect the underlying profitability of the business.

(3) Certain items are excluded from operation income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

As at December 31, 2015:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate head office	Total for reportable segments	Eliminations	Total
Total assets	353,985	153,103	93,752	21,482	622,322	(2,036)	620,286
Investment in equity method associates	5,806	—	—	—	5,806	—	5,806
Total liabilities	(133,026)	(29,255)	(37,424)	(58,657)	(258,362)	4	(258,358)

For the year ended December 31, 2014:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate head office	Total for reportable segments	Eliminations	Total
External Revenue	\$210,441	\$ 164,654	\$ 79,355	\$ —	\$ 454,450	\$ —	\$ 454,450
Inter-segment revenue	7,591	17,283	—	—	24,874	(24,874)	—
Total revenue	218,032	181,937	79,355	—	479,324	(24,874)	454,450
Operating income (loss)	38,470	(227,188)	(10,817)	(15,522)	(215,057)	(195)	(215,252)
Other expense							(3,283)
Finance costs, net							(11,496)
Foreign exchange gain							2,462
Loss from operations before income taxes and equity income of associates							(227,569)
Reconciliation to Adjusted OIBDA							
Operating income (loss)	38,470	(227,188)	(10,817)	(15,522)	(215,057)	(195)	(215,252)
Depreciation and amortization	16,630	17,401	10,343	222	44,596	—	44,596
Impairment of goodwill and other long-lived assets ⁽¹⁾	174	219,994	2,078	—	222,246	—	222,246
Loss related to Molycorp product ⁽²⁾	—	2,010	—	—	2,010	—	2,010
Adjusted OIBDA⁽³⁾	55,274	12,217	1,604	(15,300)	53,795	(195)	53,600
Capital expenditures	2,283	2,329	3,631	—	8,243	—	8,243

- (1) The Company recorded impairment of goodwill and other long-lived assets. The goodwill and intangibles assets impaired were recognized as a result of Molycorp's acquisition of Neo Material Technologies Inc. in 2012.
- (2) Losses related to Molycorp's Sorbx product. This loss was excluded as it does not reflect the underlying profitability of the business.
- (3) Certain items are excluded from operation income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

As at December 31, 2014:

	<u>Magnequench</u>	<u>Chemicals & Oxides</u>	<u>Rare Metals</u>	<u>Corporate head office</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
Total assets	496,573	234,129	124,125	21,088	875,915	(1,541)	874,374
Investment in equity method associates	6,508	—	—	—	6,508	—	6,508
Total liabilities	(119,976)	(46,629)	(33,154)	(79,665)	(279,424)	4	(279,420)

The geographic distribution of the Company's revenue based on the location of the customers, for the period ended August 30, 2016 and years ended December 31, 2015 and 2014 are summarized as follows:

<u>Revenue</u>	<u>January 1 to August 30, 2016</u>	<u>Year ended December 31, 2015</u>	<u>Year ended December 31, 2014</u>
Asia:			
China	\$ 73,804	\$128,028	\$162,980
Japan	33,295	69,967	93,299
Thailand	11,291	16,061	19,585
Hong Kong	257	—	—
Korea	11,454	17,359	14,451
North America	49,476	70,569	84,237
Europe	59,508	92,156	78,093
Other	7,733	2,686	1,805
Total	<u>\$246,818</u>	<u>\$396,826</u>	<u>\$454,450</u>

Revenue from one significant customer accounts for \$38 million and \$56 million of Company's total revenue for the periods ended August 30, 2016 and December 31, 2015, respectively (December 31, 2014: \$62 million). The Company defines significant customers as those that are 10% or more of consolidated revenues.

NOTE 13 SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital balances related to operations consists of the following:

	<u>January 1 to August 30, 2016</u>	<u>Year ended December 31, 2015</u>	<u>Year ended December 31, 2014</u>
Decrease (increase) in assets:			
Accounts receivable	\$ 2,898	\$ 4,339	\$12,812
Inventories	11,665	7,874	3,382
Other assets	(903)	(3,055)	571
Increase (decrease) in liabilities:			
Accounts payable and other accrued charges	8,856	(3,775)	(9,443)
Common control related party payables	9,223	4,723	4,894
Total net change	<u>\$31,739</u>	<u>\$10,106</u>	<u>\$12,216</u>

NOTE 14 INCOME TAX

14.1 Income Tax Expense

	August 30, 2016	December 31, 2015	December 31, 2014
Current tax expense			
Current year	\$8,354	\$ 16,562	\$ 21,570
Deferred tax expense (benefit)			
Origination and reversal of temporary differences	21	(38,982)	(28,946)
Impact of changes in tax rate	—	(1,055)	—
Derecognition of previously recognized tax losses and deductible temporary differences	—	13,495	—
Total tax expense (benefit)	\$8,375	\$ (9,980)	\$ (7,376)

14.2 Reconciliation of effective tax rate

	August 30, 2016	December 31, 2015	December 31, 2014
Income (loss) from operations before taxes and equity income of associates	\$ 3,791	\$(235,440)	\$(227,569)
Income tax expense (benefit) at blended local statutory rate of 28.33% (2016); 23.48% (2015); 21.77% (2014)	1,074	(55,281)	(49,542)
Current year losses and deductible temporary differences for which no deferred tax asset has been recognized	2,053	14,854	2,775
Change in previously recognized tax losses and deductible temporary differences ..	(1,941)	13,495	—
Foreign withholding taxes	3,889	2,692	4,053
Intercompany dividends	1,629	2,330	2,749
Current year permanent differences	1,152	2,813	912
Foreign exchange translation gain (loss)	1,177	4	(3,245)
Impairment of goodwill and other long-lived assets	—	10,968	31,122
Other	(658)	(1,855)	3,800
Income tax expense (benefit)	\$ 8,375	\$ (9,980)	\$ (7,376)

14.3 Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable profits will be available against which the benefit can be used:

	August 30, 2016	December 31, 2015	December 31, 2014
Deductible temporary differences	\$ 71,220	\$ 71,495	\$ 28,518
Tax losses	337,010	189,733	145,087
	\$408,230	\$261,228	\$173,605

Tax losses for which no deferred tax asset was recognized that will not expire totaled \$1.8 million, \$1.6 million, and \$1.5 million, for the eight months ended August 30, 2016, and the years ended December 31, 2015 and December 31, 2014, respectively. Tax losses of \$335.2 million will expire between 2016 and 2035.

As a result of filing the Chapter 11 Cases in the year ended December 31, 2015 (See Note 1.1), the Company does not believe it is probable that its entities domiciled in the United States (“US subsidiaries”) will generate sufficient future taxable profits to fully recognize its deferred tax assets. For the year ended December 31, 2015, Neo’s US subsidiaries derecognized \$23.0 million of previously recognized deferred tax assets.

14.4 Unrecognized deferred tax liabilities

The deferred tax liability on the aggregate taxable temporary differences of \$3.5 million, \$5.3 million, and \$11.1 million related to the investment in subsidiaries, where the tax will be paid on the distribution of earnings, for the eight months ended August 30, 2016, and the years ended December 31, 2015 and December 31, 2014, respectively, have not been recognized because the Company controls the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

14.5 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	August 30, 2016	December 31, 2015	December 31, 2014
Deferred Tax Assets			
Inventory	\$ 3,803	\$ 4,134	\$ 1,649
Property, plant and equipment and intangible assets	991	2,295	1,036
Accrued liabilities	585	1,025	499
Deferred compensation and retirement benefits	136	1,854	2,155
Net operating losses	6,242	4,315	14,999
Loans and borrowings	—	—	13,084
Other	48	245	1,419
Deferred Tax Liabilities			
Inventory	—	(112)	(181)
Property, plant and equipment and intangible assets	(12,399)	(19,830)	(60,435)
Foreign subsidiary earnings and withholding tax	(11,658)	(7,673)	(3,125)
Other	(1,091)	(1,978)	(222)
Deferred tax (liabilities) assets – net	<u>\$(13,343)</u>	<u>\$(15,725)</u>	<u>\$(29,122)</u>

Movements in net deferred tax (liabilities) assets:

	August 30, 2016	December 31, 2015	December 31, 2014
Balance at the beginning of the period	\$(15,725)	\$(29,122)	\$(70,262)
Recognized in profit or loss	(21)	26,542	28,946
Charged directly to equity	—	(11,898)	12,238
Other	2,403	(1,247)	(44)
Balance at the end of the period	<u>\$(13,343)</u>	<u>\$(15,725)</u>	<u>\$(29,122)</u>

NOTE 15 EMPLOYEE BENEFITS

15.1 Defined benefit pension plan and other post-retirement benefits

The Company had a defined benefit pension plan which covered all hourly employees employed as at September 30, 1995 and all hourly employees subsequently hired by the Company up to March 1, 2002, at the Company's former manufacturing facility in Anderson, Indiana. A December 31 measurement date is used for the plan. Measurement of the defined benefit obligation ("DBO") for the defined benefit pension plan at August 30, 2016, December 31, 2015, and December 31, 2014 was based on weighted-average discount rates of 3.40%, 4.25%, and 3.80%, respectively. The most recent actuarial valuation of the pension plans for funding purposes was as of January 1, 2016 and the next funding valuation will be as of January 1, 2017.

It is the Company's policy to make contributions to this plan that meets the funding requirements of applicable laws and regulations, plus such additional amounts as deemed appropriate. The Company contributed \$0.2 million, \$0.3 million, and \$0.3 million for the eight month period ended August 30, 2016 and years ended December 31, 2015, and December 31, 2014, respectively. Investment policies for the plan are consistent with the Company's investment philosophy to reduce exposure to equity market risks. A pension asset investment committee meets periodically to review asset allocation percentages and investment goals. At the following period-end measurement dates the U.S. plan's assets consist of the following:

	2016	2015	2014
Interest-bearing cash	5.3%	5.4%	7.8%
Fixed income securities	41.0%	40.6%	48.0%
Equities	48.7%	49.0%	39.3%
Other	5.0%	5.0%	4.9%

The Company also provides postretirement healthcare benefits to certain of its former employees from the Anderson, Indiana manufacturing facility. The measurement date used for other postretirement benefit plans is December 31. Measurement of the DBO for the postretirement healthcare plan at August 30, 2016, December 31, 2015, and December 31, 2014 was based on weighted-average discount rates of 2.95%, 3.80%, and 3.55%, respectively.

The following table sets forth details of the Company's components of defined benefit cost related to its U.S. pension and other postretirement benefit plans for the eight month period ended August 30, 2016 and years ended December 31, 2015, and December 31, 2014:

	Pension			Other Postretirement			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Included in net loss									
Net interest cost	70	107	80	3	5	6	73	112	86
Defined benefit cost included in profit or loss	\$70	\$107	\$80	\$3	\$5	\$6	\$73	\$112	\$86

	Pension			Other Postretirement			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Remeasurement loss (gain) included in other comprehensive income (loss)									
Actuarial loss (gain) arising from:									
Demographic assumptions	—	—	289	—	—	8	—	—	297
Financial assumptions	847	(441)	790	8	(2)	12	855	(443)	802
Experience adjustments	2	(46)	185	—	(44)	(1)	2	(90)	184
Return on plan assets (excluding interest income)	(33)	305	55	—	—	—	(33)	305	55
Total remeasurement loss (gain) included in other comprehensive income	\$816	\$(182)	\$1,319	\$ 8	\$(46)	\$19	\$824	\$(228)	\$1,338

The following table sets forth details of the changes in the Company's defined benefit obligation, plan assets and accrued pension and other postretirement benefits as at August 30, 2016, December 31, 2015, and December 31, 2014:

	Pension			Other Postretirement			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Present value of defined benefit obligation									
Benefit obligation at beginning of year	7,904	8,575	7,484	109	159	143	8,013	8,734	7,627
Service cost	—	—	—	—	—	—	—	—	—
Interest cost	217	316	333	3	6	6	220	322	339
Actuarial loss (gain) recognized in equity	849	(487)	1,264	8	(46)	19	857	(533)	1,283
Benefits paid	(327)	(500)	(506)	(7)	(10)	(9)	(334)	(510)	(515)
Benefit obligation at end of year	8,643	7,904	8,575	113	109	159	8,756	8,013	8,734
Unfunded	—	—	—	113	109	159	113	109	159
Partly or wholly funded	\$8,643	\$7,904	\$8,575	\$ —	\$ —	\$ —	\$8,643	\$7,904	\$8,575

	Pension			Other Postretirement			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Fair value of plan assets									
Fair value of plan assets at beginning of year	5,267	5,595	5,584	—	—	—	5,267	5,595	5,584
Return of plan assets (excluding interest income)	33	(305)	(55)	—	—	—	33	(305)	(55)
Employer contribution	193	268	319	7	10	9	200	278	328
Interest income	147	209	253	—	—	—	147	209	253
Benefits paid	(327)	(500)	(506)	(7)	(10)	(9)	(334)	(510)	(515)
Fair value of plan assets at end of year	\$5,313	\$5,267	\$5,595	\$ —	\$ —	\$ —	\$5,313	\$5,267	\$5,595
Net defined benefit obligation	\$3,330	\$2,637	\$2,980	\$113	\$109	\$159	\$3,443	\$2,746	\$3,139

The following table sets forth significant actuarial assumptions used in measuring the Company's pension and other postretirement benefit obligations and expense as at August 30, 2016, December 31, 2015, and December 31, 2014:

Actuarial Assumptions	Pension			Other Postretirement		
	2016	2015	2014	2016	2015	2014
Discount rate	3.40%	4.25%	3.80%	2.95%	3.80%	3.55%
Health care cost trend rate	N/A	N/A	N/A	none	none	1.53%/4.50%

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	<u>Pension</u>			<u>Other Postretirement</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assumed life expectations on retirement at age 65						
Retiring today (member age 65)						
Males	21.0	20.9	20.8	21.0	20.9	20.8
Females	22.6	22.5	22.5	22.6	22.5	22.5
Retiring in 25 years (member age 40 today)						
Males	22.5	22.4	22.4	22.5	22.4	22.4
Females	24.0	23.9	23.9	24.0	23.9	23.9

At August 30, 2016, December 31, 2015, and December 31, 2014, the weighted-average duration of the defined benefit obligation was 12.6 years, 11.8 years, and 12.0 years respectively.

	<u>Pension</u>		<u>Other Postretirement</u>	
	<u>2016</u>		<u>2016</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Sensitivity analysis				
Discount rate (1% movement)	\$(982)	\$1,219	\$(9)	\$10

	<u>Pension</u>		<u>Other Postretirement</u>	
	<u>2015</u>		<u>2015</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Sensitivity analysis				
Discount rate (1% movement)	\$(847)	\$1,042	\$(8)	\$9

	<u>Pension</u>		<u>Other Postretirement</u>	
	<u>2014</u>		<u>2014</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Sensitivity analysis				
Discount rate (1% movement)	\$(968)	\$1,202	\$(14)	\$17

15.2 Defined contribution retirement benefits

The Company sponsors a defined contribution 401(k) retirement plan available to substantially all U.S. salaried employees and contributes up to 9% of salaried employees' compensation to the plan. The Company's contributions to the plan during the eight month period ended August 30, 2016 and year ended December 31, 2015 were approximately \$0.2 million and \$0.3 million, respectively (December 31, 2014: \$0.2 million). The Company has a similar defined contribution plan available to all Canadian salaried employees and contributes up to 5% of salaried employees' base salary to the plan. The Company's contribution to the plan during the eight month period ended August 30, 2016 and year ended December 31, 2015, were approximately \$0.1 million and \$0.2 million, respectively (December 31, 2014: \$0.2 million).

NOTE 16 COMMITMENTS AND CONTINGENCIES

16.1 Lease commitments

The Company's future minimum lease payments are as follows:

	<u>Less than 1</u>	<u>1 to 5 years</u>	<u>Greater than 5</u>	<u>Total</u>
	<u>year</u>	<u>years</u>	<u>years</u>	
Future minimum lease payments	\$2,115	\$2,804	\$340	\$5,259

The Company recognized total rent expense of \$1.2 million, \$1.8 million and \$2.1 million under these premise leases for the eight month period ended August 30, 2016 and years ended December 31, 2015 and December 31, 2014, respectively. There were no contingent rent payments or sublease payments made or received during the period ended August 30, 2016, and the years ended December 31, 2015 and 2014.

16.2 Sales and purchase commitments

In the normal course of business, the Company and its subsidiaries enter into sales commitments with customers, and purchase commitments with suppliers. These commitments are for varying terms and can provide for fixed or variables prices. The Company believes that these contracts serve to reduce risk, and does not anticipate that losses will be incurred on these contracts.

16.3 Legal contingencies

In 2014 Rhodia Chimie (“Rhodia”) filed suit against the Company in Germany alleging that, since 2004, the Company has been selling certain products in Germany that infringe three European patents held by Rhodia, two of which have expired. In March 2016 the Court determined the Company’s products to be infringing with respect to the two expired patents, and ordered the Company to provide information related to calculation of damages. The Court also determined that the Company’s products infringe the third patent; however, the Court stayed the proceedings until there is decision of the Federal Patent Court on three invalidity actions filed by the Company with respect to the patents. The Company has filed appeals of the court’s rulings on the infringement actions. In September 2016, the Federal Patent Court ruled in the Company’s favor, invalidating one of the Rhodia patents. In October 2016, the Federal Patent Court ruled on the two other invalidity actions, significantly restricting the claims in one patent, which had the effect of making several of the Company’s products non-infringing, and slightly modifying the other.

No provision has been accrued in the combined carve-out statement of the financial position of the Company as at August 30, 2016 in respect of these infringement claims, because the Company considers the outcome of these actions to be uncertain; however, if the appeals and the invalidity actions are not successful, then the Company may expect to be required to pay damages to Rhodia, the amount of which cannot be estimated at this time.

NOTE 17 RELATED PARTY TRANSACTIONS

The Company’s related parties are its stockholders, joint ventures, associates, pension plans, directors and executive officers.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

17.1 Transactions with stockholders

Molycorp invests in the capital stock of its subsidiaries by taking part in their formation and acquiring shares in the companies as an investment through its wholly owned subsidiaries MCP Exchangeco Inc. (“Exchangeco”) and Molycorp Luxembourg Holdings S.a.r.l that directly invests in the shares of the Company. Molycorp and Exchangeco have loans with the Company disclosed later in this note. Other transactions between the Company and the stockholders are corporate overhead charge-outs, which are also summarized later in this note.

17.2 Transactions with associates

On occasion, MQTJ will supply Magnequench Powders to TMT to produce rare earth magnetic compounds. MQTJ will then purchase these compounds back from TMT in its normal course of business. Keli processes rare earth oxides into metals for inclusion in Magnequench Powders.

For the eight month period ended August 30, 2016, the Company purchased \$0.8 million worth of compounds from TMT (years ended December 31, 2015: \$1.4 million; December 31, 2014: \$2.3 million), and purchased metals and received services from Keli amounting to \$26.7 million (years ended December 31, 2015: \$39.2 million; December 31, 2014: \$63.3 million). During the eight month period ended August 30, 2016, the Company sold Magnequench Powders and performed services, respectively, amounting to \$1.4 million to TMT (years ended December 31, 2015: \$2.6 million; December 31, 2014: \$6.0 million).

17.3 Transactions with related parties under common control

For the period ended August 30, 2016, the Company purchased \$2.2 million of rare earth products from Molycorp Minerals, LLC (“MMLLC”) (years ended December 31, 2015: \$29.2 million; December 31, 2014: \$33.7 million) and the Company sold \$0.1 million of rare earth raw materials to MMLLC in the same period (years ended December 31, 2015: \$0.3 million; December 31, 2014: \$4.8 million). MMLLC also has loans with the Company disclosed later in this note.

17.4 Transactions with joint venture

Ingal Stade sells gallium to the Company’s facilities located in Canada and the U.S.

For the year ended December 31, 2014, the Company purchased \$2.8 million of gallium metal from Ingal Stade.

Transactions between the Company and its related parties are summarized in the table below:

	January 1 to August 30, 2016	For the year ended December 31, 2015	For the year ended December 31, 2014
Sale of goods and services to related parties	\$ 1,822	\$ 2,823	\$ 10,772
Purchase of goods and services from related parties	31,560	70,110	102,172
Corporate overhead charge-out	1,764	2,353	1,724
Interest income	4,595	6,401	4,117
Interest expense	3,202	5,920	9,205

Related party balances associated to the transactions described above, are show below:

	<u>August 30, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Accounts receivable:			
From stockholders	\$ —	\$18,264	\$18,025
From associates	174	281	395
From common control affiliates	—	1,093	13
From joint venture	—	—	49
Total	<u>\$174</u>	<u>\$19,638</u>	<u>\$18,482</u>
	<u>August 30, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Loans receivable:			
From stockholders	\$—	\$ 42,584	\$33,132
From common control affiliates	—	62,372	51,878
Total	<u>\$—</u>	<u>\$104,956</u>	<u>\$85,010</u>
	<u>August 30, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Accounts payable:			
To stockholders	\$ —	\$(10,504)	\$ (8,425)
To associates	(6,409)	(3,348)	(8,537)
To common control affiliates	—	(6,705)	(2,598)
Total	<u>\$(6,409)</u>	<u>\$(20,557)</u>	<u>\$(19,560)</u>
	<u>August 30, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Loans payable:			
To stockholders	\$(8,092)	\$(43,481)	\$(68,829)
To common control affiliates	—	(15,941)	(23,368)
Total	<u>\$(8,092)</u>	<u>\$(59,422)</u>	<u>\$(92,197)</u>

NOTE 18 DIRECTORS AND KEY MANAGEMENT COMPENSATION

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors. Key management includes six executive officers and three non-employee directors.

Aggregate compensation for the eight month period ended August 30, 2016 and years ended December 31, 2015 and December 31, 2014 were as follows:

	<u>Short-term employee benefits</u>			<u>Post-employment benefits</u>		
	<u>August 30, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>	<u>August 30, 2016</u>	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Directors	343	609	1,253	—	—	—
Key Executive Members	2,800	3,753	3,415	5	6	5
Total	<u>\$3,143</u>	<u>\$4,362</u>	<u>\$4,668</u>	<u>\$ 5</u>	<u>\$ 6</u>	<u>\$ 5</u>

NOTE 19 SALARIES EXPENSE

The employee salaries expense included in cost of sales, selling, general and administrative, and research and development expenses are \$31.2 million, \$45.4 million and \$47.1 million for the eight month period ended August 30, 2016 and years ended December 31, 2015, and December 31, 2014, respectively.

NOTE 20 FINANCIAL RISK MANAGEMENT

In the normal course of operations, the Company is exposed to a number of different financial risks. These risk factors include market risks such as foreign exchange risk, interest rate risk, other price risk, as well as credit risk and liquidity risk.

20.1 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, equity prices and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to mitigate exposures within acceptable limits, while maximizing returns.

20.2 Foreign currency exchange risk

Foreign currency exchange risk refers to the fluctuation of financial commitments, assets, liabilities, income or cash flow due to changes in foreign exchange (“FX”) rates. The Company conducts business transactions and owns assets in multiple countries; as a result, the Company is subject to fluctuations in respect of the currencies in which it operates. The Company’s income is exposed to FX risk largely in the following ways:

- Translation of foreign currency denominated revenues and expenses into U.S. dollars, the currency in which the Company reports in – When the foreign currency changes in relation to the U.S. dollar, income reported in U.S. dollars will change. The impact of weakening foreign currency in relation to the U.S. dollar for foreign currency denominated revenues and expenses will result in higher net income because the Company has more foreign currency based expenses than revenues.
- Translation of foreign currency denominated debt and other monetary items – A weakening foreign currency in respect of the Company’s foreign currency denominated debt will decrease the debt in U.S. dollar terms and generate a FX gain on bank advances and other short-term debt, which is recorded in income. The Company calculates FX on the short-term debt using the difference in FX rates at the beginning and at the end of each reporting period. Other foreign currency denominated monetary items will also be impacted by changes in FX rates.

The following table summarizes in U.S. dollar equivalents the Company’s major currency exposures as of August 30, 2016:

	Chinese Renminbi	Euro	USD	Thai Baht	Canadian Dollar	British Pound
Cash and cash equivalents	\$ 4,148	\$ 648	\$4,609	\$1,015	\$1,655	\$ 111
Accounts receivable	881	473	1,680	1,136	—	1
Bank advances and other short-term debt	—	(4,542)	—	—	—	—
Accounts payable and accrued liabilities	(6,717)	(5,148)	(29)	(984)	(209)	(234)
Income tax payable	(1,069)	(529)	—	—	—	—
Net financial assets (liabilities)	\$(2,757)	\$(9,098)	\$6,260	\$1,167	\$1,446	\$(122)

The following table shows the impact of a one-percentage point strengthening or weakening of foreign currencies against the U.S. dollar as of August 30, 2016 for the Company’s financial instruments denominated in non-functional currencies:

	Chinese Renminbi	Euro	Thai Baht	Canadian Dollar	British Pound
1% Strengthening					
Net earnings before tax	\$(28)	\$(91)	\$ 12	\$ 14	\$(1)
1% Weakening					
Net earnings before tax	28	91	(12)	(14)	1

The effect on profit or loss of a one-percentage point strengthening or weakening of U.S. dollar financial assets and liabilities held in non-U.S. dollar functional currency subsidiaries is \$0.1 million gain or loss, respectively.

20.3 Interest rate risk

This refers to the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its revolving line of credit which bear a floating rate of interest.

20.4 Credit risk

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result, create a financial loss for the Company. The Company has a credit policy that defines standard credit practice. This policy dictates that all new customer accounts are reviewed prior to approval, and establishes the maximum amount of credit exposure per customer. Credit worthiness and financial well-being of the customer is monitored on an ongoing basis.

The Company establishes an allowance for doubtful accounts as determined by management based on their assessment of collection, therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at August 30, 2016, the Company has an allowance for doubtful accounts of \$0.1 million (December 31, 2015: \$0.1 million; December 31, 2014: \$0.1 million). The provision for doubtful accounts, if any, is included in Selling, general and administrative expenses in the carve-out combined statements of profit or loss, and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose the Company to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at August 30, 2016, the Company does not anticipate non-performance that would materially impact the Company’s financial statements.

20.5 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure, as outlined in Note 21. It also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account the Company’s sales and receipts and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves the Company’s annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisitions and other major investments.

The following table reflects the contractual maturity of the Company's financial liabilities as at August 30, 2016:

<u>Financial liabilities</u>	<u>1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>Beyond 5 years</u>	<u>Total</u>
Bank advances and other short-term debt	\$103,109	\$ —	\$—	\$—	\$103,109
Accounts payable and other accrued charges	77,374	—	—	—	77,374
Derivative liability ⁽¹⁾	9,502	—	—	—	9,502
Borrowings from related parties	8,092	—	—	—	8,092
Other liabilities	877	639	—	—	1,516
Total	\$198,954	\$639	\$—	\$—	\$199,593

⁽¹⁾ The fair value of the put option on shares of the remaining shareholder of Buss & Buss

NOTE 21 CAPITAL DISCLOSURES

The Company's objectives when managing its capital are:

- to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future growth of the business, both internally and by acquisition;
- to provide an adequate return to its shareholders;
- to manage capital in a manner that will maintain compliance with its financial covenants.

The Company defines its capital as follows:

- shareholders' equity;
- non-controlling interests;
- bank advances and other short-term debt; and
- long-term debt

The Company manages its capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as in the light of changes in economic conditions and the risk characteristics of the underlying assets. As well, the Company may issue new debt to replace existing debt. There are no assurances that these initiatives will be carried out.

In the management of capital, the Company has established quantitative return on capital criteria, and year-over-year sustainable earnings growth targets for the Company's divisions. These targets are monitored and reviewed on a quarterly basis by using a number of key financial metrics, including:

- return on capital employed ("ROCE"): operating income divided by average capital employed – ROCE is a key measurement of financial performance, focusing on cash and the efficient use of capital;
- net debt to capitalization, is net debt (the sum of long-term debt including the current portion and bank advances, less cash), divided by the sum of net debt, shareholders' equity and non-controlling interests.

Both of these metrics have no standardized meanings prescribed by IFRS and, therefore, are unlikely to be comparable to similar measures of other companies.

NOTE 22 PROVISIONS

The Company's NPM Silmet AS facility in Estonia, in its normal operation, generates hazardous and naturally occurring radioactive materials ("NORM"). These materials are still currently being stored at the site.

As at December 31, 2015, the Company recorded a provision of \$4.3 million for the disposal of the NORM and other related costs, in accordance with local regulations. This amount represents management's best estimate of the costs to be incurred by the Company.

NOTE 23 SUBSEQUENT EVENTS

23.1 Business combinations

On August 31, 2016, pursuant to the terms of the Fourth Joint Amended Plan of Reorganization, certain subsidiaries of Molycorp emerged from bankruptcy. The reorganized business is comprised of a number of operating subsidiaries organized under a holding company, Neo Cayman Holdings Ltd., which is ultimately controlled by Oaktree Capital Management L.P. As a result of the reorganization, Neo Cayman Holdings Ltd. acquired certain subsidiaries of Molycorp representing the downstream business operations denominated Neo Performance Materials Operations, in exchange for the partial satisfaction of allowed claims valued at \$416.9 million. As a result of the reorganization, Neo Cayman Holdings Ltd. has applied IFRS 3 – Business Combinations in accounting for the acquisition.

The final allocation of the total purchase price of \$416.9 million is shown below:

<u>Working capital, including:</u>	
Cash and cash equivalents	\$ 90,321
Accounts receivable	35,020
Inventories	126,087
Income taxes receivable	1,321
Other current assets	20,118
Accounts payable and other accrued charges	(76,707)
Income taxes payable	(4,228)
Provisions	(4,350)
Other current liabilities	(877)
Property, plant and equipment	91,882
Intangible assets	78,200
Goodwill	100,736
Deferred tax assets	286
Investments	7,839
Other non-current assets	2,306
Bank advances and other short-term debt	(7,689)
Deferred tax liabilities	(23,290)
Employee benefits	(3,443)
Derivative liability	(9,502)
Other non-current liabilities	(491)
Non-controlling interest	(6,618)
Total	<u>\$416,921</u>

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Property, plant and equipment

Market comparison technique and cost technique: The valuation model considers quoted market process for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as economic obsolescence.

Intangible assets

The multi-period excess earnings method: The fair value of customer relationships was calculated based on the present value of net cash flows expected to be generated by the customer relationships, excluding any cash flows related to contributory assets.

Inventories

Market comparison technique: The fair value was determined based on the estimated selling price in the ordinary course of business less the estimated cost of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Goodwill associated with the acquisition of the downstream business of Molycorp, Inc. arose primarily because of the Company’s proven leadership in the development, processing, and distribution of technically advanced rare earth products; exposure to the world’s largest and fastest-growing rare earths consuming markets, China; deferred tax liabilities; and expected synergies that do not qualify for separate recognition. The goodwill is not amortized and is not deductible for tax purposes.

23.2 Initial Public Offering

On September 12, 2017, OCM Neo Holdings (Cayman), L.P. (“OCM”) formed Neo Performance Materials Inc. (“NewCo”), a company incorporated in the province of Ontario, for the purpose of completing a Cayman Islands scheme of arrangement (the “Arrangement”) with Neo Cayman Holdings Ltd. (“Neo Cayman”) and a subsequent public offering of the common shares of NewCo (“NewCo Shares”).

NewCo filed a final prospectus on ●, 2017 with the securities commissions of each of the provinces and territories of Canada for an initial public offering by way of secondary offering of ● NewCo Shares held by OCM to the public at a price of C\$ ● per share (the “Offering”), subject to the terms of an underwriting agreement entered into between NewCo, the underwriters and OCM. Pursuant to the underwriting agreement, OCM granted the underwriters an over-allotment option, exercisable, in whole or in part, at any time prior to the 30th day after the closing of the Offering, to purchase from OCM that number of NewCo Shares equal to 15% of the NewCo Shares sold on the closing date of the Offering.

Prior to filing the final prospectus, NewCo intends to complete the Arrangement with Neo Cayman whereby NewCo will acquire all of the issued and outstanding shares of Neo Cayman in exchange for the issuance of an aggregate of 39,878,383 NewCo Shares. The acquisition by NewCo of Neo Cayman will be a transaction amongst entities under common control. NewCo intends to account for this transaction using book value accounting, based on the book values that would be recognized in the consolidated financial statements of Neo Cayman.

**APPENDIX “A”
MANDATE OF THE BOARD OF DIRECTORS**

Neo Performance Materials Inc.

(the “Company”)

MANDATE OF THE BOARD OF DIRECTORS

As approved by the Board of Directors of the Company (the “**Board**”) on November 7, 2017.

A. MANDATE

The Board directly, and through its committees, oversees the management of the Company and is responsible for the stewardship of the Company, ensuring that long-term value is being created for all of its shareholders while considering the interests of the Company’s various stakeholders including employees, customers, suppliers and the community.

B. BOARD COMPOSITION

The number of directors may be set from time to time by the Board within the minimum and maximum numbers approved by the Company’s shareholders and as set out in the Company’s constating documents. The directors shall be elected by the Company’s shareholders, except as permitted by the *Business Corporations Act* (Ontario). If a vacancy occurs, the Board may identify, select and approve a replacement director, or may decide to reduce the size of the Board. The Board shall be comprised of an appropriate mix of directors to comply with applicable securities regulations, including any requirements in terms of director independence. A director shall be considered independent if he or she would be considered independent for the purposes of National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (“**NI 58-101**”).

The Board will appoint a Chair (the “**Chair**”) and a Corporate Secretary. The Chair shall be designated from among the members of the Board. If the Chair is not independent for the purposes of NI 58-101, then a majority of the Board’s independent directors shall appoint an independent lead director (the “**Lead Director**”) from among the directors, who shall serve for such term as the Board may determine. The Lead Director or non-executive Chair shall chair any meetings of the independent directors and assume such other responsibilities as the independent directors may designate in accordance with any applicable position descriptions or other applicable guidelines that may be adopted by the Board from time to time.

C. MEETINGS AND BOARD PROCESS

The Board shall meet at least four times per year, once after each quarter to review financial information and annual continuous disclosure materials required by the Canadian Securities Administrators have been prepared. The Board will meet more frequently if circumstances dictate.

Board meetings will allow for input from all Board members. Any director may request that the Lead Director or non-executive Chair co-ordinate a meeting of the non-executive members of the Board.

The Chair shall be responsible for establishing or causing to be established the agenda for each Board meeting. The Board and the Board committee communication with the Company will be principally through the Company’s Chief Executive Officer. The Board may, from time to time, assign specific duties and tasks to individuals or committees.

An Audit Committee and a Compensation Committee (collectively, the “**Committees**”) have been established. Each of the Committees shall operate under a written mandate document approved by the Board.

Periodically the Board will evaluate the effectiveness of the Board as a whole and ensure that appropriate succession plans are in place. This may include reviewing the process for nominating, orienting and remunerating Board members, determining the committees required and changing the mandates for the Committees.

The Board has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and has direct access to the books, records, facilities and personnel of the organization. The Board has the ability to retain, at the Company's expense, special legal, accounting or other consultants or experts it deems necessary in the performance of its duties.

D. RESPONSIBILITIES

The Board members shall ensure that:

- (a) all Board members understand the business of the Company;
- (b) processes are in place to effectively plan, monitor and manage the long-term viability of the Company;
- (c) there is a balance between long and short-term goals and risks;
- (d) management's performance is adequate and that an adequate management succession plan is in place;
- (e) communication with shareholders and other stakeholders is timely and effective;
- (f) the Board shall adopt appropriate procedures designed to permit the Board to receive feedback from shareholders on material issues;
- (g) business is conducted ethically and in compliance with applicable laws and regulations; and
- (h) all matters requiring shareholder approval are referred to them.

E. OPERATIONAL MATTERS

In the process of executing its responsibilities the Board will:

- (a) review corporate performance on a quarterly basis;
- (b) review and approve dividend payments, if any;
- (c) review and approve Company banking and borrowing resolutions;
- (d) review and approve any changes in the issued shares;
- (e) review accounting policies, internal controls and audit procedures;
- (f) review and approve the annual continuous disclosure materials required by the Canadian Securities Administrators;
- (g) review and approve the annual financial statements and the interim quarterly results;
- (h) recommend to the shareholders the appointment of auditors and their remuneration; and
- (i) provide advice to management.

F. CODE OF CONDUCT

The Board must adopt a written Code of Conduct (the "**Code of Conduct**") as part of its efforts to promote a culture of integrity and honesty throughout the Company. The Code of Conduct will apply to the Board itself and to the Company's affiliates, management, employees and consultants. Only the Board may grant any waivers to the Code of Conduct. If the Board grants a waiver to the Code of Conduct, the Board will determine if disclosure of the waiver is necessary in accordance with applicable laws and stock exchange rules. Contents of such disclosure will be in compliance with National Policy 58-201 – *Corporate Governance Guidelines* and NI 58-101.

G. WHISTLEBLOWER POLICY

The Board will, in conjunction with the Audit Committee, establish a whistleblower policy for the Company allowing Company employees, officers, directors and other stakeholders, including the public, to raise, anonymously or not, questions, complaints or concerns about the Company's practices, including fraud, policy violations, any illegal or unethical conduct and any Company accounting, auditing or internal control matters. The Board will ensure that any questions, complaints or concerns are adequately received, reviewed, investigated, documented and resolved.

APPENDIX “B”
MANDATE OF THE AUDIT COMMITTEE
NEO PERFORMANCE MATERIALS INC.

(the “Company”)

MANDATE OF THE AUDIT COMMITTEE

As approved by the Board of Directors of the Company (the “**Board**”) on November 7, 2017.

A. PURPOSE AND SCOPE

The Audit Committee (the “**Committee**”) of the Board shall be responsible for assisting in the Board’s oversight of the reliability and integrity of the accounting principles and practices, financial statements and other financial reporting and disclosure practices followed by management of the Company. The Committee shall also have oversight responsibility for: (i) the qualifications, independence and performance of the independent auditors; (ii) the establishment by management of an adequate system of internal controls; (iii) the preparation by management of quarterly and annual financial statements; and (iv) the maintenance by management of practices and processes to ensure compliance with applicable laws.

B. COMPOSITION AND MEETINGS

The Committee shall be comprised of a minimum of three directors as appointed by the Board, each of whom shall meet the criteria for independence, financial literacy and audit committee composition requirements (collectively, the “**Applicable Requirements**”) of National Instrument 52-110 – *Audit Committees* (“**NI 52-110**”) of the Canadian Securities Administrators, any exchange upon which securities of the Company are traded or any governmental or regulatory body exercising authority over the Company (each a “**Regulatory Body**”, and collectively, the “**Regulatory Bodies**”).

A majority of the members of the Committee shall constitute a quorum at any meeting of the Committee, but in no case shall a quorum be comprised of less than two members of the Committee, and the action of a majority of those present, after determining a quorum, shall be the act of the Committee.

The Committee shall ensure that all necessary and proper disclosures shall be made in all applicable filings with Regulatory Bodies as to the composition of the Committee. Committee members may enhance their familiarity with finance and accounting by participating in education programs conducted by the Company or an outside consultant.

The members of the Committee shall be appointed by the Board at a meeting of the Board following each annual meeting of shareholders and shall serve until their successors shall be duly elected and qualified or until their earlier death, resignation or removal. The Board may fill a vacancy in the membership of the Committee and remove a member of the Committee at any time for any reason. The Board shall appoint the chair of the Committee (the “**Chair**”) from the Committee members. In the absence of the Chair at a duly convened meeting, the Committee shall select a temporary substitute from among its members.

The Committee shall meet on a regularly-scheduled basis at least four times per year or more frequently as circumstances dictate. At the invitation of the Committee, members of the Company’s management and others may attend Committee meetings as the Committee considers necessary or desirable. The Company’s independent auditors are entitled to attend and be heard at each Committee meeting. The Committee shall meet without management present at each Committee meeting. All independent directors may attend Committee meetings, provided that directors who are not members of the Committee shall not be entitled to vote, nor shall their attendance be counted as part of the quorum of the Committee.

The Chair, any member of the Committee, the Company’s independent auditors, the Chair of the Board or the Chief Executive Officer or Chief Financial Officer may call a meeting by notifying the Company’s Corporate Secretary who will notify members of the Committee. Ordinarily, meetings of the Committee should be convened with no less

than five business days' notice having been given. In exceptional circumstances, the requirement for notice can be waived subject to the formal consent of no less than the number of Committee members that constitutes a quorum of the Committee or instruction by a resolution of the Board.

The Committee shall report its actions to the members of the Board and the Corporate Secretary of the Company. The Committee may appoint a Committee member or any other attendee to be the secretary of a meeting and shall keep written minutes of its meetings which shall be recorded and filed with the books and records of the Company. Minutes of each meeting will be made available to the members of the Board and the Company's auditors. The Committee shall report its decisions and recommendations to the Board promptly after each Committee meeting.

C. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties the Committee shall:

1. review and assess the adequacy of this mandate annually, and recommend any proposed changes to the Board for approval;
2. review, at least annually, the performance of the independent auditors, and annually recommend to the Board, for approval by the shareholders, the appointment of the independent auditors of the Company in accordance with the *Business Corporations Act* (Ontario);
3. at least every five years, perform a comprehensive review of the performance of the external auditors over multiple years to provide further insight on the audit firm, its independence and application of professional standards;
4. engage in an active dialogue with the independent auditors on their independence from the Company, and where it is determined that independence no longer exists, recommend that the Board take appropriate action;
5. review and recommend to the Board for approval, the terms of any annual audit engagement of the independent auditors, including the appropriateness of the proposed audit fees and the auditors independence with respect to the engagement of the independent auditors for any audit related services;
6. approve any non-audit services to be provided by the firm of the independent auditors to the Company in accordance with NI 52-110;
7. review and approve annually the overall scope of the independent auditors' annual audit plan;
8. periodically review the status and findings of the independent auditors' audit plan and the adequacy of internal controls established by management and, where appropriate, make recommendations or reports thereon to the Board;
9. understand the scope, principal risks and integrity of internal and external auditors' review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management's responses;
10. annually, and at any time in response to a specific request by management or the independent auditors, meet separately with the relevant parties with respect to such matters as to the effectiveness of the system of internal controls established by management, the adequacy of the financial reporting process, the quality and integrity of the financial statements, the evaluation of the performance of the independent auditor and any other matter that may be appropriate;
11. review and discuss the Company's major financial risk exposures and the steps taken to monitor and control such exposures;
12. review and make recommendations to the Board regarding, the adequacy of the Company's risk management policies and procedures with regard to identification of the Company's principal risks and implementation of appropriate systems and controls to manage such risks including an assessment of the adequacy of insurance coverage maintained by the Company;
13. periodically review the Company's policies and procedures for reviewing and approving or ratifying related-party transactions;

14. review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements;
15. review the quarterly and annual financial statements and corresponding management discussion and analysis, and consider whether they are complete, consistent with information known to Committee members and reflect appropriate accounting principles;
16. review and recommend to the Board for approval, where appropriate, financial information contained in any prospectuses, annual information forms, annual reports to shareholders, management proxy circulars, business acquisition reports, material change disclosures of a financial nature and similar disclosure documents prior to the public disclosure of such documents or information;
17. review significant changes in the accounting principles to be observed in the preparation of the accounts of the Company and its subsidiaries, or in their application, and in financial statement presentation;
18. review and, following discussion with the independent auditors (following their review of the financial statements) and management, recommend to the Board, approval of unaudited quarterly and audited annual consolidated financial statements of the Company;
19. review the Company's policies relating to the avoidance of conflicts of interest and review and approve all material payments to be made pursuant to any related party transactions involving executive officers and members of the Board, as required by any Regulatory Body;
20. cause the Chair to review and approve all expense reimbursements of the Chief Executive Officer;
21. review and monitor practices and procedures adopted by management to assure compliance with applicable laws, and, where appropriate, make recommendations or reports thereon to the Board; and
22. monitor and periodically review the Whistleblower Policy of the Company and associated procedures for:
 - the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters;
 - the confidential, anonymous submission by directors, officers and employees of the Company regarding questionable accounting or auditing matters; and
 - if applicable, any violations of applicable law, rules or regulations that relates to corporate reporting and disclosure, or violations of the Company's Code of Conduct.

D. ACCESS TO MANAGEMENT AND INDEPENDENT ADVICE

The Committee shall have unrestricted access to the Company's management and employees and to the books and records of the Company and, from time to time may hold unscheduled or regularly scheduled meetings or portions of meetings in executive session or otherwise with the Company's independent auditors, the Chief Financial Officer, the Chief Executive Officer and Corporate Secretary.

The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities and duties as described above, and may seek, retain and terminate accounting, legal, consulting or other expert advice from a source independent of management, at the expense of the Company, with notice to either the independent lead director of the Board or the non-executive Chair of the Board or the Chief Executive Officer of the Company, as deemed appropriate by the Committee. In furtherance of the foregoing, the Committee shall have the sole authority to retain and terminate any such consultant or advisor to be used to assist in the evaluation of such matters and shall have the sole authority to approve the consultant or advisor's fees and other retention terms.

While the Committee has the responsibilities and powers set forth in this mandate, it is not the duty of the Committee to plan or conduct audits, to establish the Company's accounting and financial reporting systems, or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles.

CERTIFICATE OF THE COMPANY

Dated: November 9, 2017

This Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of each of the provinces and territories of Canada.

(signed) GEOFF BEDFORD
President and Chief Executive Officer

(signed) RAHIM SULEMAN
Chief Financial Officer

ON BEHALF OF THE BOARD OF DIRECTORS

(signed) CONSTANTINE KARAYANNOPOULOS
Director

(signed) EMILY STEPHENS
Director

CERTIFICATE OF THE PROMOTER AND SELLING SHAREHOLDER

Dated: November 9, 2017

This Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of each of the provinces and territories of Canada.

OCM NEO HOLDINGS (CAYMAN), L.P.

By: OCM Neo Holdings (Cayman) GP Ltd.

Its: General Partner

By: Oaktree Capital Management, L.P.

Its: Director

By: (signed) Emily Stephens,
Managing Director

By: (signed) Nicholas Basso,
Senior Vice President

CERTIFICATE OF UNDERWRITERS

Dated: November 9, 2017

To the best of our knowledge, information and belief, this Prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the securities legislation of each of the provinces and territories of Canada.

SCOTIA CAPITAL INC.

Per: (signed) CHAD GRAVES
Director

RBC DOMINION SECURITIES INC.

Per: (signed) JOHN BLANCHETTE
Director

CORMARK SECURITIES INC.

Per: (signed) ALFRED AVANESSY
Managing Director

CIBC WORLD MARKETS INC.

Per: (signed) RYAN VOEGELI
Managing Director

BARCLAYS CAPITAL CANADA INC.

Per: (signed) ERIK CHARBONNEAU
Managing Director

CANACCORD GENUITY CORP.

Per: (signed) JASON ROBERTSON
Managing Director

GMP SECURITIES L.P.

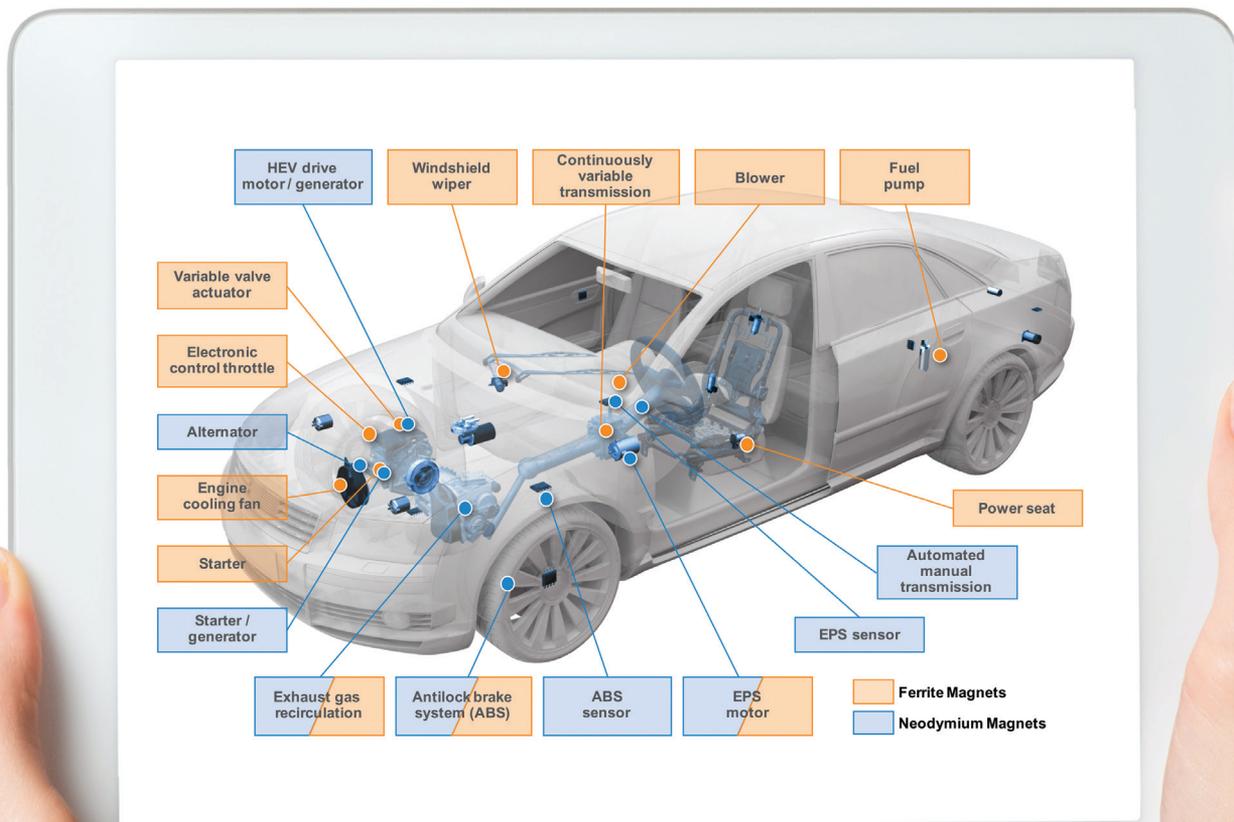
Per: (signed) JARRAD SEGAL
Director

RAYMOND JAMES LTD.

Per: (signed) JIMMY LEUNG
Managing Director

Longstanding Relationships with Leading Global Customer Base

Representative Longstanding Customers





neo

Performance Materials

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