



NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Neo Performance Materials Inc.

We have audited the accompanying consolidated financial statements of Neo Performance Materials Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of profit or loss, comprehensive income (loss), changes in equity and cash flows for the year ended December 31, 2017 and 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 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 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 in our audits 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 Performance Materials Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2017 and for the period from April 5, 2016 (date of incorporation) to December 31, 2016 in accordance with International Financial Reporting Standards.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 9, 2018

NEO PERFORMANCE MATERIALS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(all figures in thousands of United States dollars)

	December 31, 2017	December 31, 2016
ASSETS		
Current		
Cash and cash equivalents	\$ 96,805	\$ 79,408
Restricted cash	1,529	—
Accounts receivable (Note 7)	46,766	39,168
Inventories (Note 8)	105,973	101,338
Income taxes receivable	661	1,321
Other current assets	12,516	17,283
Total current assets	264,250	238,518
Property, plant and equipment (Note 9)	88,392	87,818
Intangible assets (Note 10)	72,769	75,404
Goodwill (Note 11)	101,893	98,911
Investments (Note 12)	8,633	7,670
Deferred tax assets (Note 19)	1,406	3,209
Other non-current assets	1,150	2,221
Total non-current assets	274,243	275,233
Total assets	\$ 538,493	\$ 513,751
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt (Note 13)	\$ 181	\$ 7,925
Accounts payable and other accrued charges	73,177	57,387
Income taxes payable	6,319	4,823
Other current liabilities	1,777	937
Total current liabilities	81,454	71,072
Employee benefits (Note 24)	2,437	2,665
Derivative liability (Note 13)	9,842	9,654
Provisions (Note 25)	4,665	4,350
Deferred tax liabilities (Note 19)	20,206	21,310
Other non-current liabilities	642	604
Total non-current liabilities	37,792	38,583
Total liabilities	119,246	109,655
Non-controlling interest	5,831	6,260
Equity attributable to equity holders of Neo Performance Materials Inc.	413,416	397,836
Total equity	419,247	404,096
Total liabilities and equity	\$ 538,493	\$ 513,751
Commitments and contingencies (Note 16)		
Subsequent events (Note 28)		

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

(all figures in thousands of United States dollars, except per share information)

	Year Ended December 31, 2017	April 5¹ to December 31, 2016
Revenue	\$ 434,169	\$ 135,312
Costs of sales		
Costs excluding depreciation and amortization	296,648	117,063
Depreciation and amortization	10,101	4,048
Gross profit	127,420	14,201
Expenses		
Selling, general and administrative.	63,222	18,345
Stock-based compensation (Note 20).	6,241	—
Depreciation and amortization	7,418	2,551
Research and development	15,714	4,442
	92,595	25,338
Operating income (loss)	34,825	(11,137)
Other income (expense)	1,803	(394)
Finance income (costs), net	152	(132)
Foreign exchange loss.	(466)	(709)
	36,314	(12,372)
Income (loss) from operations before income taxes and equity income (loss) of associates	36,314	(12,372)
Income tax expense (Note 19)	(11,893)	(423)
	24,421	(12,795)
Income (loss) from operations before equity income (loss) of associates.	24,421	(12,795)
Equity income (loss) of associates (net of income tax) (Note 12) . . .	972	(169)
	\$ 25,393	\$ (12,964)
Net income (loss)	\$ 25,393	\$ (12,964)
Attributable to:		
Equity holders of Neo Performance Materials Inc.	\$ 24,620	\$ (12,645)
Non-controlling interest	773	(319)
	\$ 25,393	\$ (12,964)
Earnings per share data attributable to equity holders of Neo Performance Materials Inc.:		
Basic (Note 18).	\$ 0.62	\$ (0.71)
Diluted (Note 18)	\$ 0.61	\$ (0.71)

¹"Date of incorporation" See Note 3 Basis of Preparation

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(all figures in thousands of United States dollars)

	Year Ended December 31, 2017	April 5¹ to December 31, 2016
Net income (loss) for the period	\$ 25,393	\$ (12,964)
Other comprehensive income (loss):		
Item that will not be reclassified subsequently to profit or loss:		
Defined benefit pension plan actuarial gain (net of income tax (benefit) expense of \$(91); 2016 - \$281)	160	440
Item that is or may be reclassified subsequently to profit or loss:		
Currency translation adjustment	9,994	(6,449)
Other comprehensive income (loss) for the period	10,154	(6,009)
Total comprehensive income (loss) for the period	\$ 35,547	\$ (18,973)
Attributable to:		
Non-controlling interest	\$ 842	\$ (358)
Equity holders of Neo Performance Materials Inc.	34,705	(18,615)
	\$ 35,547	\$ (18,973)

¹"Date of incorporation" See Note 3 Basis of Preparation

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(all figures in thousands of United States dollars)

	Year Ended December 31, 2017	April 5¹ to December 31, 2016
Operating activities		
Net income (loss) for the period	\$ 25,393	\$ (12,964)
Add (deduct) items not affecting cash:		
Depreciation and amortization	17,519	6,599
Stock-based compensation	6,241	—
Acquired inventory fair value release (Note 6 and 8)	2,912	24,150
Change in pension liability	(69)	(45)
Net finance (income) costs	(152)	132
Equity (income) loss of associates (Note 12)	(972)	169
Loss on disposal of property, plant and equipment	810	422
Income tax expense (Note 19)	11,893	423
Foreign exchange (gain) loss	(1,826)	572
Other	2,307	(143)
Allowance for doubtful accounts	—	34
Net change in non-cash working capital balances related to operations (Note 15)	7,070	(21,392)
Income taxes paid	(9,264)	(4,477)
Interest received, net of interest paid	336	5
Cash provided by (used in) operating activities	\$ 62,198	\$ (6,515)
Investing activities		
Additions of property, plant and equipment	(12,235)	(2,708)
Additions of intangible assets	(44)	(298)
Dividends received from associates	9	—
Increase in restricted cash	(1,503)	—
Cash used in investing activities	\$ (13,773)	\$ (3,006)
Financing activities		
Repayment of bank advances and other short-term debt	(7,774)	577
Dividends paid to non-controlling interest	(1,271)	—
Dividends paid	(24,924)	—
Repurchase of common shares	—	(470)
Cash (used in) provided by financing activities	\$ (33,969)	\$ 107
Effect of exchange rate changes on cash	2,941	(1,499)
Cash provided (used) during the period	17,397	(10,913)
Cash and cash equivalents, beginning of period	79,408	90,321
Cash and cash equivalents, end of period	\$ 96,805	\$ 79,408

¹"Date of incorporation" See Note 3 Basis of Preparation

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(all figures in thousands of United States dollars)

	Share Capital			Other Comprehensive (Loss) Income				Total		
	Common Stock		Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains (net of tax)	Accumulated Other Comprehensive Income	Equity Attributable to Equity Holders of Neo Performance Materials Inc.	Non-Controlling Interest	Equity	
	Number	Amount								Deficit
Balance - January 1, 2017	39,630,244	\$ 40	\$ (12,645)	\$ 416,411	\$ (6,410)	\$ 440	\$ (5,970)	\$ 397,836	\$ 6,260	\$ 404,096
Net earnings	—	—	24,620	—	—	—	—	24,620	773	25,393
Other comprehensive income (loss)	—	—	—	—	9,925	160	10,085	10,085	69	10,154
Total comprehensive income	—	—	24,620	—	9,925	160	10,085	34,705	842	35,547
Reissuance of common shares	248,140	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	6,241	—	—	—	6,241	—	6,241
Dividends paid to Neo Cayman shareholders	—	—	(24,924)	—	—	—	—	(24,924)	—	(24,924)
Distributions paid to non-controlling interest	—	—	—	—	—	—	—	—	(1,271)	(1,271)
Issuance of common shares for Restricted Share Units exercised	43,193	—	—	(442)	—	—	—	(442)	—	(442)
	291,333	—	(24,924)	5,799	—	—	—	(19,125)	(1,271)	(20,396)
Balance - December 31, 2017	39,921,577	\$ 40	\$ (12,949)	\$ 422,210	\$ 3,515	\$ 600	\$ 4,115	\$ 413,416	\$ 5,831	\$ 419,247
Balance - April 5¹, 2016	—	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Net loss	—	—	(12,645)	—	—	—	—	(12,645)	(319)	(12,964)
Other comprehensive (loss) income	—	—	—	—	(6,410)	440	(5,970)	(5,970)	(39)	(6,009)
Total comprehensive (loss) income	—	—	(12,645)	—	(6,410)	440	(5,970)	(18,615)	(358)	(18,973)
Acquisition through business combination (Note 6)	—	—	—	—	—	—	—	—	6,618	6,618
Issuance of common shares	39,552,588	40	—	416,881	—	—	—	416,921	—	416,921
Issuance of common shares from treasury	199,000	—	—	—	—	—	—	—	—	—
Repurchase and cancellation of common shares	(121,344)	—	—	(470)	—	—	—	(470)	—	(470)
	39,630,244	40	—	416,411	—	—	—	416,451	6,618	423,069
Balance - December 31, 2016	39,630,244	\$ 40	\$ (12,645)	\$ 416,411	\$ (6,410)	\$ 440	\$ (5,970)	\$ 397,836	\$ 6,260	\$ 404,096

¹"Date of incorporation" See Note 3 Basis of Preparation

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Tabular figures in thousands of United States dollars, unless otherwise stated)

NOTE 1 NATURE OF OPERATIONS

Neo Performance Materials Inc. ("**Neo**", the "**Company**" or the "**Group**") is a Canadian public company and was incorporated on September 12, 2017 under the *Business Corporations Act* (Ontario). OCM Neo Holdings (Cayman), L.P. ("**OCM**") formed the Company 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 the Company.

On November 30, 2017, the Company finalized the court approved Arrangement with Neo Cayman whereby the Company acquired 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 was a transaction amongst entities under common control. Accordingly, the Company accounted for this transaction using book value accounting, based on the book values recognized in the consolidated financial statements of Neo Cayman. Financial information for the pre-Arrangement period, including comparative periods, are presented based on the historical information of Neo Cayman.

Also on November 30, 2017, the Company completed an Initial Public Offering ("**IPO**") by way of a Secondary Offering on the Toronto Stock Exchange ("**TSX**"). The Company offered 11,115,000 common shares for total proceeds of C \$200,070,000 with an over-allotment option. On January 8, 2018, the underwriters exercised a portion of the over-allotment option for the purchase of an additional 1,100,000 common shares for additional gross proceeds of C \$19,800,000. All proceeds, net of underwriter commissions, were paid to the selling shareholder, Oaktree Capital Management L.P. ("**Oaktree**") and their affiliates. Oaktree continues to be the largest and majority shareholder of Neo.

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

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 1,818 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 ("**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 gallium tri-chloride ("**GaCl3**") producer for light-emitting diodes ("**LEDs**") and growth opportunities into new end markets such as waste water treatment. Neo is organized along three business segments: Magnequench, Chemicals and Oxides ("**C&O**") and Rare Metals, as well as the Corporate segment.

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 neodymium-iron-boron ("**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 rare earth oxides ("**REO**") 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 in Toronto, Ontario, Canada, with additional corporate offices in Greenwood Village, 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 have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The consolidated financial statements were approved and authorized for issuance by the Company's Board of Directors on March 9, 2018.

NOTE 3 BASIS OF PREPARATION

The Company's operations, prior to August 31, 2016, were controlled by Molycorp, Inc. 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 was comprised of a number of operating subsidiaries organized under a holding company, Neo Cayman, which was ultimately controlled by Oaktree. As a result of the reorganization, Neo Cayman acquired certain subsidiaries of Molycorp representing the downstream business operations denominated as Neo Performance Materials Operations. As further discussed in Note 6, the Reorganization of Neo Performance Materials Operations was accounted using IFRS 3 - Business Combinations to account for the transfer of ownership to Neo Cayman. Material changes to the book value of the assets and liabilities as a result of applying IFRS 3 included \$27.1 million, \$10.6 million, \$6.2 million, and \$48.2 million increases to inventories, property, plant, and equipment, intangible assets, and goodwill, respectively. In addition, bank advances and short term debt and long term debt decreased by \$103.5 million and \$1.8 million respectively, in connection with

the Reorganization. Finally, deferred tax assets decreased by \$2.5 million and deferred tax liabilities increased by \$7.2 million as a result of the tax impact of the fair value and reorganization adjustments.

As a result of applying IFRS 3, Neo Cayman recorded additional depreciation and amortization expense of \$1.0 million on an annual basis. For the year ended December 31, 2017, \$2.9 million of the fair value increments related to the inventory acquired through the business combination were released and recorded in costs of sales in the consolidated statements of profit or loss. From April 5, 2016 (date of incorporation) through to December 31, 2016, \$24.2 million of the fair value increments related to the inventory acquired through the business combination was released and recorded in costs of sales in the consolidated statements of profit or loss.

Neo Cayman was incorporated on April 5, 2016 and had no commercial operations until its acquisition of Neo Performance Materials Operations on August 31, 2016.

These consolidated 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.

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, 2017.

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 statements of profit or loss.

Outlined below is information related to the Company's subsidiaries and associates at December 31, 2017:

	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.	South Korea	Subsidiary	80%	Consolidation
Neo International Corp.	Barbados	Subsidiary	100%	Consolidation
Jiangyin Jiahua Advanced Material 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 Material Resources Co., Ltd.	China	Subsidiary	95%	Consolidation
NPM Silmet OU	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

	Place of Business	Entity Type	Economic Interest	Method
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..	South 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 subsidiaries 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 ("CODM") evaluates the performance of the business. The Company is organized along three business segments – Magnequench, C&O 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 fair value of the consideration paid is allocated to the identifiable assets acquired and liabilities assumed based on their 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 or more frequently if events or changes in circumstances indicate that the asset might be impaired 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 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 consolidated statements of financial position as a separate component, with the replaced part or previous overhaul derecognized from the statements of financial position and recorded in the 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 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 statements 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

relationships. Amortization has been included within depreciation and amortization expense in the consolidated statements 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 term of the lease.

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.

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 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 pre-tax 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 to determine whether there is evidence indicating they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative impact on estimated future cash flows from that asset. All impairment losses are recognized in net income. 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 average 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 statements 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. 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 a plan managed by 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 consolidated statements 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 expense recognized for equity-settled transactions at each reporting date reflects the vesting period, which has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

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, residual values, and method of depreciation of depreciable assets based on the expected utility of the assets annually. Any changes are accounted for prospectively as a change in accounting estimate.

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

The following accounting pronouncements issued by the IASB were not effective for the Company as at December 31, 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 completed a preliminary review and accounting assessment of revenue streams and underlying contracts with customers. The majority of the Company's revenues within the scope of IFRS 15 are earned through the sale of products under short and long-term contracts. The Company has chosen to apply the modified retrospective method of transition. Under this method, the comparative periods presented in the consolidated financial statements as at and for the year ended December 31, 2018 will not be restated. Instead, the Company will recognize the cumulative impact of the initial application of the standard in retained earnings as at January 1, 2018.

The Company does not anticipate that the standard will have a material impact on the consolidated financial statements.

IFRS 9 – Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9 ("**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 has completed a preliminary assessment of the impact of this standard on its consolidated financial statements and expects no material changes to the classification and measurement of the Company's financial assets and liabilities.

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 statements 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 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 assessed the impact of this interpretation on its consolidated financial statements and expects no changes to the exchange rates used to convert the Company's foreign currency transactions and advance consideration.

NOTE 6 BUSINESS COMBINATION

On August 31, 2016, pursuant to the Fourth Joint Amended Plan of Reorganization, Neo Cayman Holdings Ltd. acquired control of Neo Performance Materials Operations, 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 Neo Performance Materials Operations 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 prices 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 Neo Performance Materials Operations 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 market, China; deferred tax liabilities; and expected synergies that do not qualify for separate recognition. Goodwill is not amortized and is not deductible for tax purposes.

NOTE 7 ACCOUNTS RECEIVABLE

	December 31, 2017	December 31, 2016
Gross trade receivables	\$ 46,902	\$ 39,324
Allowance for doubtful accounts	(136)	(156)
Accounts receivable	\$ 46,766	\$ 39,168

The table below illustrates the aging of accounts receivable which are past due:

	December 31, 2017	December 31, 2016
Less than three months	\$ 4,807	\$ 4,963
More than three months but less than six months	66	272
More than six months but less than one year	30	—
More than one year	12	11
Total	\$ 4,915	\$ 5,246

The majority of the Company's accounts receivable are classified as current assets. 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 26.

NOTE 8 INVENTORIES

Inventories, stated at the lower of weighted-average cost or net realizable value, consist of the following:

	December 31, 2017	December 31, 2016
Raw materials	\$ 35,450	\$ 30,163
Work-in-progress	24,591	17,474
Finished goods	38,420	47,707
Supplies	7,512	5,994
Total	\$ 105,973	\$ 101,338

The cost of finished goods manufactured includes appropriate materials, labour and production overhead expenditure.

As of December 31, 2017, a total of \$280.4 million of inventories was included in cost of sales expense. From April 5, 2016 (date of incorporation) through to December 31, 2016, \$88.4 million of inventories was included in cost of sales expense.

For the year ended December 31, 2017, \$2.9 million of the fair value increments related to the inventory acquired through the business combination disclosed in Note 6 were released and recorded in costs of sales in the consolidated statements of profit or loss. From April 5, 2016 (date of incorporation) through to December 31, 2016, \$24.2 million of the fair value increments related to the inventory acquired through the business combination were released and recorded in costs of sales in the consolidated statements of profit or loss.

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

	<u>Land</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, 2017						
Cost.....	\$ 3,150	\$ 33,640	\$ 49,628	\$ 2,968	\$ 2,643	\$ 92,029
Accumulated depreciation	—	(855)	(3,334)	(22)	—	(4,211)
Opening net book value at January 1, 2017.....	\$ 3,150	\$ 32,785	\$ 46,294	\$ 2,946	\$ 2,643	\$ 87,818
Additions	—	113	1,904	144	10,074	12,235
Disposals, net of cost and accumulated depreciation	—	(355)	(418)	(31)	(6)	(810)
Transfers	—	1,875	3,427	202	(5,504)	—
Currency translation adjustments	—	473	1,103	225	42	1,843
Write-offs	—	—	(125)	(36)	(240)	(401)
Depreciation expense	—	(2,711)	(8,249)	(1,333)	—	(12,293)
Closing net book value at December 31, 2017	\$ 3,150	\$ 32,180	\$ 43,936	\$ 2,117	\$ 7,009	\$ 88,392
Comprised of:						
Cost.....	\$ 3,150	\$ 36,321	\$ 55,567	\$ 3,441	\$ 7,009	\$ 105,488
Accumulated depreciation	—	(4,141)	(11,631)	(1,324)	—	(17,096)

	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	\$ 3,150	\$ 32,785	\$ 46,294	\$ 2,946	\$ 2,643	\$ 87,818
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 tradename. The following table illustrates the net book value of the Company's intangible assets:

	Customer Relationships	License agreements	Tradename	Total
At January 1, 2017				
Cost.....	\$ 70,288	\$ 516	\$ 6,000	\$ 76,804
Accumulated amortization	(1,345)	(55)	—	(1,400)
Opening net book value at January 1, 2017...	\$ 68,943	\$ 461	\$ 6,000	\$ 75,404
Additions.....	—	44	—	44
Disposals.....	—	—	—	—
Currency translation adjustments	2,547	—	—	2,547
Amortization expense.....	(5,002)	(224)	—	(5,226)
Closing net book value at December 31, 2017 ..	\$ 66,488	\$ 281	\$ 6,000	\$ 72,769
Comprised of:				
Cost.....	\$ 72,976	\$ 342	\$ 6,000	\$ 79,318
Accumulated amortization	(6,488)	(61)	—	(6,549)

	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 ..	\$ 68,943	\$ 461	\$ 6,000	\$ 75,404
Comprised of:				
Cost.....	\$ 70,288	\$ 516	\$ 6,000	\$ 76,804
Accumulated amortization.....	(1,345)	(55)	—	(1,400)

NOTE 11 GOODWILL

	December 31, 2017	December 31, 2016
Opening balance.....	\$ 98,911	\$ —
Acquisition through business combination (Note 6).....	—	100,736
Currency translation adjustments.....	2,982	(1,825)
Ending balance	\$ 101,893	\$ 98,911

Goodwill is allocated to the following group of CGUs for the purpose of annual impairment testing:

	December 31, 2017	December 31, 2016
Magnequench.....	\$ 68,925	\$ 65,998
C&O.....	16,682	16,627
Rare Metals.....	16,286	16,286
Total goodwill allocated	\$ 101,893	\$ 98,911

On December 31, 2017, the Company performed goodwill impairment testing for all of its CGUs 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.

1. **The revenue growth rate** is determined based on management's past experience in the industry, and ranged from 6.0% to 10.0% 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 determined in order to calculate the present value of the projected cash flows of the CGUs. A first indication for an 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 10.3% to 12.7% for the Company's CGUs at December 31, 2017.

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 a lower discount rate to CGUs with less volatile cash flows due to their market position and maturity of the markets they serve.

At December 31, 2017, 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 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.

	Country of Incorporation or Registration	Percentage Share Holdings
Keli	China	25%
TMT.....	China	33%
GQD	Thailand	20%

Aggregate financial information of these equity accounted associates as at and for the year ended December 31, 2017 and as at December 31, 2016 and for the period from April 5, 2016 (date of incorporation) through to December 31, 2016 is provided below.

For the year ended December 31, 2017:

	TMT	Keli	GQD	Total
Total revenue	\$ 4,058	\$ 245,378	\$ 5,513	\$ 254,949
Share of revenue in associates	1,339	61,344	1,103	63,786
Net income (loss)	20	4,849	(1,236)	3,633
Share of income (loss) in associates	6	1,213	(247)	972

For the period from April 5, 2016 to December 31, 2016:

	TMT	Keli	Total
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)

Aggregate financial information for GQD for the period from April 5, 2016 (date of incorporation) through to December 31, 2016 was not significant.

As at December 31, 2017:

	TMT	Keli	GQD	Total
Current assets	\$ 4,777	\$ 140,352	\$ 5,269	\$ 150,398
Non-current assets	1,801	3,739	2,375	7,915
Total assets of associates	\$ 6,578	\$ 144,091	\$ 7,644	\$ 158,313
Current liabilities	\$ 1,157	\$ 114,329	\$ 5,438	\$ 120,924
Total liabilities of associates	\$ 1,157	\$ 114,329	\$ 5,438	\$ 120,924

As at December 31, 2016:

	TMT	Keli	Total
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

Total assets and liabilities of GQD as at December 31, 2016 were not significant.

Investments accounted for using the equity method are as follows:

	TMT	Keli	GQD	Total
Carrying value at January 1, 2017	\$ 1,788	\$ 5,178	\$ 704	\$ 7,670
Share of results in associates	6	1,213	(247)	972
Dividends received from associates	(9)	—	—	(9)
Carrying value at December 31, 2017	\$ 1,785	\$ 6,391	\$ 457	\$ 8,633
Carrying value at April 5, 2016	\$ —	\$ —	\$ —	\$ —
Acquisition through business combination (Note 6)	1,842	5,293	704	7,839
Share of results in associates	(54)	(115)	—	(169)
Carrying value at December 31, 2016	\$ 1,788	\$ 5,178	\$ 704	\$ 7,670

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>	December 31, 2017	December 31, 2016
Loans and Receivables		
Accounts receivable	\$ 46,766	\$ 39,168
Fair value through profit or loss		
Cash and cash equivalents	96,805	79,408
Total financial assets	\$ 143,571	\$ 118,576
<u>Financial Liabilities</u>		
Fair value through profit or loss		
Put option issued to non-controlling interest of Buss & Buss (Derivative liability)	\$ 9,842	\$ 9,654
Measured at amortized cost		
Current:		
Accounts payable and other accrued charges	73,177	57,387
Bank advances and other short-term debt	181	7,925
	73,358	65,312
Total financial liabilities	\$ 83,200	\$ 74,966

13.1 Derivative liability

As at December 31, 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>	December 31, 2017	December 31, 2016
Opening balance	\$ 9,654	\$ —
Acquisition through business combination (Note 6)	0	9,502
Movement in fair value during the period	188	152
Ending balance	\$ 9,842	\$ 9,654

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 the consolidated statements 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 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, 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	\$ 96,805	\$ —	\$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss.....	\$ —	\$ —	\$ 9,842

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 year ended December 31, 2017.

13.3 Bank advances, short-term loan and debt

13.3.1 Chinese bank advances

As of December 31, 2017, one of the Chinese subsidiaries has a line of credit of approximately \$12.3 million (Renminbi 80.0 million). No amount was drawn as at December 31, 2017.

13.3.2 German debt facility

As at December 31, 2017, one of the subsidiaries in Germany has an \$8.4 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 shareholder 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, 2017, \$0.2 million (€0.1 million) was drawn from the revolving line of credit.

There are no financial covenants which need to be met.

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 management believes 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 year ended December 31, 2017:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate head office	Total for reportable segments	Eliminations	Total
External revenue	\$ 202,905	\$ 155,255	\$ 76,009	\$ —	\$ 434,169	\$ —	\$ 434,169
Inter-segment revenue	—	15,635	—	—	15,635	(15,635)	—
Total revenue	\$ 202,905	\$ 170,890	\$ 76,009	\$ —	\$ 449,804	\$ (15,635)	\$ 434,169
Operating income (loss)	\$ 40,986	\$ 16,892	\$ 3,935	\$ (25,644)	\$ 36,169	\$ (1,344)	\$ 34,825
Other income							1,803
Finance income, net							152
Foreign exchange loss							(466)
Income from operations before income taxes and equity income of associates							\$ 36,314
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	\$ 40,986	\$ 16,892	\$ 3,935	\$ (25,644)	\$ 36,169	\$ (1,344)	\$ 34,825
Depreciation and amortization	7,074	5,047	5,175	223	17,519	—	17,519
Fair value of inventory release ⁽¹⁾	868	2,463	(419)	—	2,912	—	2,912
Stock and value-based compensation ⁽²⁾	479	892	432	4,840	6,643	—	6,643
IPO transaction cost ⁽³⁾	—	—	—	5,997	5,997	—	5,997
Adjusted OIBDA ⁽⁴⁾	\$ 49,407	\$ 25,294	\$ 9,123	\$ (14,584)	\$ 69,240	\$ (1,344)	\$ 67,896
Capital expenditures	\$ 1,843	\$ 6,962	\$ 3,474	\$ —	\$ 12,279	\$ —	\$ 12,279

Notes:

- (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 year ended December 31, 2017 and had \$2,912 impact on operating income (loss).
- (2) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization and a long-term value bonus plan computed in the same fashion as the stock based plan except settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance.
- (3) These costs are related to legal, professional advisory fees and other transaction costs incurred as a result of the IPO by way of Secondary Offering in the three and twelve month period ended December 31, 2017. These charges were included in Selling, general and administrative.

- (4) 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, 2016 to 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)	\$ (5,956)	\$ (7,007)	\$ (10,482)	\$ (655)	\$ (11,137)
Other loss							(394)
Finance costs, 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)	\$ (5,956)	\$ (7,007)	\$ (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	\$ 736	\$ (6,952)	\$ 19,968	\$ (356)	\$ 19,612
Capital expenditures	\$ 666	\$ 1,576	\$ 466	\$ 298	\$ 3,006	\$ —	\$ 3,006

Notes:

- (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 \$24,150 impact on operating income (loss).
- (2) 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, 2017:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate head office	Total for reportable segments	Eliminations	Total
Total assets	\$ 260,826	\$ 168,561	\$ 100,456	\$ 10,649	\$ 540,492	\$ (1,999)	\$ 538,493
Investment in equity method associates	8,633	—	—	—	8,633	—	8,633
Total liabilities	(43,936)	(36,243)	(22,915)	(16,152)	(119,246)	—	(119,246)

As at December 31, 2016:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate head office	Total for reportable segments	Eliminations	Total
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 year ended December 31, 2017 and for the period from April 5, 2016 (date of incorporation) through to December 31, 2016 is summarized as follows:

<u>Revenue</u>	<u>Year Ended December 31, 2017</u>	<u>April 5, 2016 to December 31, 2016</u>
Asia:		
China	\$ 142,981	\$ 47,536
Japan	66,811	17,462
Thailand	15,320	5,010
South Korea	19,134	5,407
North America	91,292	25,572
Europe	89,621	30,932
Other	9,010	3,393
Total	\$ 434,169	\$ 135,312

Revenues from one significant customer accounts for \$81.6 million of Company's total revenues for the year ended December 31, 2017 and \$19.6 million for the period from April 5, 2016 (date of incorporation) through to 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>Year Ended December 31, 2017</u>	<u>April 5, 2016 to December 31, 2016</u>
Decrease (increase) in assets:		
Accounts receivable	\$ (6,641)	\$ (4,907)
Inventories	(5,322)	(878)
Other assets	4,886	2,774
Increase (decrease) in liabilities:		
Accounts payable and other accrued charges	14,147	(18,381)
Total net change	\$ 7,070	\$ (21,392)

NOTE 16 COMMITMENTS AND CONTINGENCIES

16.1 Lease commitments

The Company's future minimum lease payments are as follows:

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>Greater than 5 years</u>	<u>Total</u>
Future minimum lease payments	\$ 1,863	\$ 5,180	\$ 139	\$ 7,182

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 variable 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

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 the People's Republic of China. Additionally, the Company has initiated proceedings to invalidate certain patents of the Company's competitors 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 ("984") and European patent #0863846 B1 ("846")) 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 \$6.1 million.

Management does not have sufficient information to comment on the quantum or methodology of the damages sought by Rhodia.

In December 2017, the Regional Court of Mannheim (Germany) determined that certain of the Company's products infringed on a German patent (European #1435338 B1). The Company has appealed the decision and continues to pursue action to invalidate the patent upon which this ruling is based. There is also an on-going proceeding in the UK based on the UK equivalent of the patent, which shall follow UK procedural and substantive jurisprudence.

The following infringement proceedings are ongoing. These proceedings are at various stages of court proceeding including being at pre-trial stage, within infringement proceedings, as well as invalidity proceedings.

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
European patent 0735984 B1	Germany	\$6.1 million
Chinese patent ZL 94194552.9	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
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 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. 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. Future developments in these cases could cause management to change its assessment.

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 17 SHARE CAPITAL

On November 30, 2017, the Company finalized the court approved Arrangement with Neo Cayman whereby the Company acquired all of the issued and outstanding shares of Neo Cayman in exchange for the issuance of an aggregate of 39,878,383 common shares. Following the effective date of the Arrangement, the par value of the common share remained at \$0.001 per share. The acquisition by the Company of Neo Cayman was a transaction amongst entities under common control. As a result, the Company has elected to represent its comparative figures and adjusts its common share capital as if the Arrangement had occurred on April 5, 2016.

The issued share capital of the Company consists only of fully paid common shares with nominal par value. All common 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, 2017	December 31, 2016
Number of common shares authorized for issue:	Unlimited	Unlimited
Number of preference shares authorized for issue:	Unlimited	Unlimited
Total common shares issued and fully paid	39,921,577	39,630,244
Total treasury shares	—	248,424

NOTE 18 EARNINGS PER SHARE

18.1 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 year ended December 31, 2017, and the period from April 5, 2016 to December 31, 2016. The weighted average number of shares outstanding is calculated as follows:

	Year Ended December 31, 2017	April 5, 2016 to December 31, 2016
Common shares issued at beginning of period	39,630,244	—
Weighted average impact of:		
Issuance of common shares	170,572	17,874,104
Repurchase and cancellation of common shares	—	(448)
Weighted average number of common shares for the period - basic	39,800,816	17,873,656

18.2 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:

	Year Ended December 31, 2017	April 5, 2016 to December 31, 2016
Net income (loss) attributable to equity holders of Neo Performance Materials Inc. - basic and diluted	\$ 24,620	\$ (12,645)
	Year Ended December 31, 2017	April 5, 2016 to December 31, 2016
Weighted average number of common shares - basic	39,800,816	17,873,656
Dilutive effect of Stock Units	485,586	—
Weighted average number of common shares - diluted	40,286,402	17,873,656

	Year Ended December 31, 2017	April 5, 2016 to December 31, 2016
Earnings (loss) per share - basic	\$ 0.62	\$ (0.71)
Earnings (loss) per share - diluted	\$ 0.61	\$ (0.71)

For the year ended December 31, 2017, 1,099,182 (April 5, 2016 (date of incorporation) through to December 31, 2016: nil) PSUs and Special PSUs were excluded from the dilutive weighted-average number of ordinary shares calculation as they are contingently issuable upon a liquidity event occurring and achieving certain shareholders' internal milestones which were not met at period end. In addition, for the year ended December 31, 2017, 16,489 (from April 5, 2016 (date of incorporation) through to December 31, 2016: nil) RSUs were excluded from the computation of dilutive earnings per share as they were anti-dilutive.

NOTE 19 INCOME TAXES

19.1 Income Tax Expense

	Year Ended December 31, 2017	April 5, 2016 to December 31, 2016
Current tax expense (benefit)		
Current year	\$ 14,215	\$ 5,074
Adjustments in respect of prior years	(2,598)	—
Total current tax expense	<u>11,617</u>	<u>5,074</u>
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	276	(4,651)
Total income tax expense	\$ 11,893	\$ 423

19.2 Reconciliation of effective tax rate

	Year Ended December 31, 2017	April 5, 2016 to December 31, 2016
Income (loss) from operations before taxes and equity income of associates	\$ 36,314	\$ (12,372)
Income tax expense (benefit) at Canadian applicable tax rate of 26.5% (2016 - 21.95% blended tax rate)	9,623	(2,716)
Impact of countries with different tax rates	(4,576)	—
Effect of changes in tax rates	2,946	—
Losses and deductible temporary differences for which no deferred tax asset has been recognized	154	1,066
Current tax benefit with respect to prior years	(2,598)	—
Foreign withholding taxes	4,464	1,286
Deferred tax expense (benefit) on foreign exchange translation of non- monetary items	(982)	416
Expenses not deductible for tax purposes	3,468	123
Other	(606)	248
Total income tax expense	\$ 11,893	\$ 423

The applicable tax rate for the year ended December 31, 2017 is Neo's statutory income tax rate in Canada whereas the applicable tax rate for the period April 5, 2016 to December 31, 2016 is Neo Cayman's blended tax rate of its subsidiaries. The change is the result of the acquisition of Neo Cayman by Neo as described in Note 1.

19.3 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, 2017	December 31, 2016
Deductible temporary differences	\$ 27,696	\$ 14,638
Tax losses	131,609	127,676
	\$ 159,305	\$ 142,314

Tax losses for which no deferred tax asset was recognized that will not expire totaled \$2.4 million while tax losses of \$9.8 million expire between 2018 and 2020 and \$119.4 million expire between 2021 and 2037.

19.4 Unrecognized deferred tax liabilities

At December 31, 2017 taxable temporary differences of \$30.3 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.

19.5 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	December 31, 2017	December 31, 2016
Deferred Tax Assets		
Inventory	\$ 2,500	\$ 4,341
Property, plant and equipment and intangible assets	354	627
Accrued liabilities	—	899
Deferred compensation and retirement benefits	98	—
Net operating losses	10	1,459
Other	1,676	299
Deferred Tax Liabilities		
Inventory	(114)	(288)
Property, plant and equipment and intangible assets	(16,813)	(18,642)
Foreign subsidiary earnings and withholding tax	(6,511)	(6,005)
Other	—	(791)
Deferred tax liabilities - net	\$ (18,800)	\$ (18,101)

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, resulting in the following presentation:

	December 31, 2017	December 31, 2016
Deferred tax assets	\$ 1,406	\$ 3,209
Deferred tax liabilities	(20,206)	(21,310)
Deferred tax liabilities - net	\$ (18,800)	\$ (18,101)

Movement in net deferred tax liabilities:

	December 31, 2017	December 31, 2016
Balance at the beginning of the period	\$ (18,101)	\$ —
Acquisition through business combination (see below)	—	(23,004)
Recognized in profit or loss	(276)	4,651
Other	(423)	252
Balance at the end of the period	(18,800)	(18,101)

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>

NOTE 20 STOCK-BASED COMPENSATION

The Neo Cayman management incentive plan was assigned to the Company upon the completion of the Arrangement. This plan, (the “**Legacy Plan**”), was comprised of Share Options (“**Options**”), Restricted Share Units (“**RSUs**”), Performance Stock Units (“**PSUs**”) and Special Performance Stock Units (“**Special PSUs**”) (collectively referred to as “**Stock Units**”). These Stock Units were granted under the Legacy Plan 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. Options 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 ceasing to own at least 51% of the shares of the Company. PSUs and Special PSUs vest in segments upon a liquidity event occurring and achieving Oaktree’s internal milestones.

	Options	RSUs	PSUs	Special PSUs
Outstanding, January 1, 2017	232,676	56,716	193,953	38,841
Granted	42,001	30,934	35,001	7,001
Effect of 1:4 share consolidation	824,031	262,950	686,861	137,525
Exercised	—	(74,497)	—	—
Outstanding, December 31, 2017	<u>1,098,708</u>	<u>276,103</u>	<u>915,815</u>	<u>183,367</u>
Exercisable, December 31, 2017	<u>274,676</u>	<u>—</u>	<u>—</u>	<u>—</u>
Weighted average exercise price, December 31, 2017	<u>\$ 9.37</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Weighted average remaining contractual life, December 31, 2017	<u>8.67 years</u>	<u>2.67 years</u>	<u>—</u>	<u>1.00 year</u>

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 year ended December 31, 2017 and the period ended December 31, 2016:

	Options	RSUs	PSUs	Special PSUs
<u>Valuation model and key assumptions at December 16, 2016 grant date:</u>				
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
	Options	RSUs	PSUs	Special PSUs
<u>Valuation model and key assumptions at September 1, 2017 grant date:</u>				
Grant date fair value		\$ 48.79		
Dividend yield		—%		
Expected volatility		32.9%		
Risk-free interest rate		1.3%		
Share price		\$ 55.00		
	Options	RSUs	PSUs	Special PSUs
<u>Key assumptions at December 31, 2017</u>				
<i>Non-market condition assumptions:</i>				
Probability of exit event occurring before December 31, 2018	50.0%	50.0%	—%	50.0%
Remaining vesting period	1.0 years	1.0 years		1.0 years
<i>Market condition assumptions:</i>				
Remaining vesting period	—	—	0.67 years	0.67 years

The following table shows the stock-based compensation expense recorded in the consolidated statements of profit or loss:

	Year Ended December 31, 2017
Options	\$ 1,497
RSUs	1,847
PSUs	2,524
Special PSUs	373
Total	\$ 6,241

NOTE 21 RELATED PARTY TRANSACTIONS

The Company'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.

21.1 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 and GQD processes rare earth oxides into metals for inclusion in Magnequench Powders.

For the year ended December 31, 2017, the Company purchased \$1.9 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$67.8 million, and received services from GQD amounting to \$1.0 million. For the year ended December 31, 2017, the Company sold Magnequench Powders and performed services amounting to \$2.8 million to TMT.

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.

21.2 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 year ended December 31, 2017, and the period ended December 31, 2016, these purchases were \$0.5 million and \$0.7 million, respectively.

Transactions between the Company and its related parties are summarized in the table below:

	Year Ended December 31, 2017	April 5, 2016 to December 31, 2016
Sale of goods and services to related parties	\$ 2,815	\$ 911
Purchase of goods and services from related parties	71,097	18,772

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Trade balances:		
from associates	\$ 160	\$ 179
due to associates	(12,943)	(10,059)
Total	<u>\$ (12,783)</u>	<u>\$ (9,880)</u>

NOTE 22 DIRECTORS AND KEY MANAGEMENT COMPENSATION

The Company's short-term employee benefits are as follows:

	<u>Year Ended December 31, 2017</u>	<u>April 5, 2016 to December 31, 2016</u>
Directors	227	\$ 73
Key Executive Management	4,209	1,541
Total	<u>\$ 4,436</u>	<u>\$ 1,614</u>

The Company's post-employment benefits are as follows:

	<u>Year Ended December 31, 2017</u>	<u>April 5, 2016 to December 31, 2016</u>
Directors	\$ —	\$ —
Key Executive Management	9	2
Total	<u>\$ 9</u>	<u>\$ 2</u>

The Company's stock-based compensation expenses are as follows:

	<u>Year Ended December 31, 2017</u>	<u>April 5, 2016 to December 31, 2016</u>
Directors	\$ 647	\$ —
Key Executive Management	4,877	—
Total	<u>\$ 5,524</u>	<u>\$ —</u>

NOTE 23 SALARIES EXPENSE

The employee salaries included in cost of sales, selling, general and administrative, research and development expenses are \$46.6 million for the year ended December 31, 2017 and \$15.1 million for the period from April 5, 2016 (date of incorporation) through to December 31, 2016.

NOTE 24 EMPLOYEE BENEFITS

24.1 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 \$264,000 during the year ended December 31, 2017, and \$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, 2017 and December 31, 2016, the U.S. plan's assets consist of the following:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Interest-bearing cash	3.9%	5.0%
Fixed income securities	41.3%	41.0%
Equities	49.6%	49.0%
Others	5.2%	5.0%

The Company also provides postretirement health benefits to certain of its former employees from the Anderson, Indiana manufacturing facility, which closed in 2002. The measurement date used for postretirement benefit plans is December 31. Measurement of the defined benefit obligation ("DBO") at December 31, 2017 and December 31, 2016 was based on a weighted-average discount rate of 3.3% and 3.6%, respectively.

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 year ended December 31, 2017, and the period ended December 31, 2016:

<u>Included in net loss</u>	Pension		Postretirement		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net interest cost	\$ 100	\$ 37	\$ 4	\$ 1	\$ 104	\$ 38
Defined benefit cost included in profit or loss.	<u>\$ 100</u>	<u>\$ 37</u>	<u>\$ 4</u>	<u>\$ 1</u>	<u>\$ 104</u>	<u>\$ 38</u>

<u>Remeasurement loss (gain) included in other comprehensive income</u>	Pension		Postretirement		Total	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Actuarial loss (gain) arising from:						
Demographic assumptions	\$ (68)	\$ (204)	\$ (1)	\$ (5)	\$ (69)	\$ (209)
Financial assumptions	454	(638)	2	(5)	456	(643)
Experience adjustments	1	79	1	1	2	80
Return on plan assets (excluding interest income)	(449)	42	—	—	(449)	42
Total remeasurement loss (gain) recognized in other comprehensive income	<u>\$ (62)</u>	<u>\$ (721)</u>	<u>\$ 2</u>	<u>\$ (9)</u>	<u>\$ (60)</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, 2017 and December 31, 2016:

<u>Present value of defined benefit obligation</u>	Pension		Postretirement		Total	
	2017	2016	2017	2016	2017	2016
Benefit obligation at the beginning of the period	\$ 7,812	\$ —	\$ 102	\$ —	\$ 7,914	\$ —
Acquisition through business combination (Note 6)	—	8,643	—	113	—	8,756
Service cost	—	—	—	—	—	—
Interest expense	306	97	4	1	310	98
Actuarial loss (gain) recognized in equity	387	(764)	2	(9)	389	(773)
Benefits paid	(490)	(164)	(8)	(3)	(498)	(167)
Benefit obligation at end of year	<u>\$ 8,015</u>	<u>\$ 7,812</u>	<u>\$ 100</u>	<u>\$ 102</u>	<u>\$ 8,115</u>	<u>\$ 7,914</u>
Unfunded	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 100</u>	<u>\$ 102</u>	<u>\$ 100</u>	<u>\$ 102</u>
Partly or wholly funded	<u>\$ 8,015</u>	<u>\$ 7,812</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,015</u>	<u>\$ 7,812</u>
<u>Fair value of plan assets</u>	Pension		Postretirement		Total	
	2017	2016	2017	2016	2017	2016
Fair value of plan assets at the beginning of the period	\$ 5,249	\$ —	\$ —	\$ —	\$ 5,249	\$ —
Acquisition through business combination (Note 6)	—	5,313	—	—	—	5,313
Return on plan assets (excluding interest income)	449	(42)	—	—	449	(42)
Employer contribution	264	82	8	3	272	85
Interest income	206	60	—	—	206	60
Benefits paid	(490)	(164)	(8)	(3)	(498)	(167)
Fair value of plan assets at end of year	<u>\$ 5,678</u>	<u>\$ 5,249</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,678</u>	<u>\$ 5,249</u>
Net defined benefit obligation	<u>\$ 2,337</u>	<u>\$ 2,563</u>	<u>\$ 100</u>	<u>\$ 102</u>	<u>\$ 2,437</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, 2017 and December 31, 2016:

Actuarial assumptions	Pension benefit plans		Other benefit plans	
	2017	2016	2017	2016
Discount rate	3.55%	4.05%	3.30%	3.60%
Health care cost trend rate	N/A	N/A	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:

Assumed life expectations on retirement at age 65	Pension benefit plans		Other benefit plans	
	2017	2016	2017	2016
Retiring today (member age 65)				
Males	19.7	19.8	19.7	19.8
Females	22.2	22.3	22.2	22.3
Retiring in 25 years (member age 40 today)				
Males	21.8	21.9	21.8	21.9
Females	24.2	24.4	24.2	24.4

At December 31, 2017 and December 31, 2016, the weighted-average duration of the defined benefit obligation was 11.9 and 11.7 years, respectively.

Sensitivity analysis	Pension benefit plans		Other benefit plans	
	2017		2017	
	Increase	Decrease	Increase	Decrease
Discount rate (1% movement)	\$ (864)	\$ 1,066	\$ (7)	\$ 8

Sensitivity analysis	Pension benefit plans		Other benefit plans	
	2016		2016	
	Increase	Decrease	Increase	Decrease
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.

24.2 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 year ended December 31, 2017 were approximately \$0.2 million, and \$0.1 million for the period ended December 31, 2016. The Company has a similar defined contribution plan available to all Canadian salaried employees and contributes up to 5% of salaried employees' compensation to the plan. The Company's contribution to the plan during the year ended December 31, 2017 was \$0.1 million, and minimal for the period ended December 31, 2016.

NOTE 25 PROVISIONS

The Company's NPM Silmet OU facility in Estonia, in its normal operation, generates hazardous and naturally occurring radioactive materials ("NORM"). These materials are stored at the site.

	December 31, 2017	December 31, 2016
Opening balance	\$ 4,350	\$ —
Acquisition through business combination (Note 6)	—	4,350
Additional provision recorded during the period	315	—
Ending balance	\$ 4,665	\$ 4,350

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. An additional provision of \$0.3 million was recorded in 2017, bringing the balance to \$4.7 million as at December 31, 2017. This amount represents management's best estimate of the costs to be incurred by the Company to settle the obligation.

NOTE 26 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.

26.1 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.

26.2 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 December 31, 2017:

	Chinese Renminbi	Euro	USD	Thai Baht	Canadian Dollar	British Pound
Cash and cash equivalents	\$ 23,998	\$ 569	\$ 7,532	\$ 1,991	\$ 1,285	\$ 612
Accounts receivable	2,718	723	1,055	814	—	9
Income taxes receivable	71	—	—	—	—	—
Other receivable	593	1,978	—	2,004	65	—
Bank advances and other short-term debt	—	(176)	—	—	—	—
Accounts payable and accrued liabilities .	(8,920)	(4,665)	(160)	(1,260)	(400)	(703)
Income taxes payable	(1)	(392)	—	(316)	(573)	—
Net financial assets (liabilities)	\$ 18,459	\$ (1,963)	\$ 8,427	\$ 3,233	\$ 377	\$ (82)

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, 2017 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	\$ 185	\$ (20)	\$ 32	\$ 4	\$ (1)
1% Weakening					
Net earnings before tax	(185)	20	(32)	(4)	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 a \$0.2 million gain or loss, respectively.

26.3 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 December 31, 2017, the Company only has \$0.2 million drawn on the German revolving line of credit and no other outstanding bank loans, and thus does not have significant exposure to interest rate fluctuations.

26.4 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, 2017, the Company has an allowance for doubtful accounts of \$0.1 million. The provision for doubtful accounts, if any, is included in Selling, general and administrative expenses in the consolidated 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 December 31, 2017, the Company does not anticipate non-performance that would materially impact the Company's financial statements.

26.5 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 27. 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, 2017:

<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 debts	\$ 181	\$ —	\$ —	\$ —	\$ 181
Accounts payable and other accrued charges	73,177	—	—	—	73,177
Derivative liability*	—	—	—	9,842	9,842
Provision	—	4,665	—	—	4,665
Other liabilities	1,777	642	—	—	2,419
Total	\$75,135	\$ 5,307	\$ —	\$ 9,842	\$90,284

* The fair value of the put option on shares of the remaining shareholder of Buss & Buss

NOTE 27 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**”): adjusted operating income divided by average adjusted 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 28 SUBSEQUENT EVENTS

On March 8, 2018, the Board of Directors declared a quarterly dividend of C\$0.095 per common share payable in cash on March 29, 2018, to common shareholders of record at the close of business on March 22, 2018.

On February 15, 2018 the Company and Magnesium Eltron Limited ("**MEL**") reached a confidential settlement agreement regarding European and UK Patents #1444036 B1. As a result, MEL agreed to withdraw their patent infringement claim and the Company agreed to withdraw its invalidity counterclaim.