MANAGEMENT'S DISCUSSION AND ANALYSIS

NEO PERFORMANCE MATERIALS INC.

FOR THE YEAR ENDED DECEMBER 31, 2017

Management's Discussion and Analysis

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

The following Management's Discussion and Analysis ("**MD&A**") for Neo Performance Materials Inc. should be read in conjunction with the accompanying audited consolidated financial statements and related notes thereto as at and for the year ended December 31, 2017, and the consolidated financial statements for the period from April 5, 2016 (date of incorporation) to December 31, 2016, and the Combined Carve-out Financial Statements for the eight month period ended August 30, 2016 and years ended December 31, 2015 and 2014, which are included in Neo Performance Materials Inc.'s Final Prospectus dated November 30, 2017 filed on www.sedar.com. Unless otherwise stated, references in this section to "Neo", "our", "we" or "Group", refer to Neo Performance Materials Inc. and its consolidated subsidiaries and its combined Predecessor operations (as defined below).

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

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

The discussion and analysis in this MD&A are based upon information available to management as of March 9, 2018. This MD&A should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additionally, other events may or may not occur, which could affect Neo in the future.

1. Forward-Looking Information

The following discussion and analysis contains “forward-looking information” within the meaning of applicable securities laws in Canada. Forward-looking information may relate to future events or future performance of Neo. All statements in this disclosure, other than statements of historical facts, with respect to Neo's objectives and goals, as well as statements with respect to its beliefs, plans, objectives, expectations, anticipations, estimates, and intentions, are forward-looking information. Specific forward-looking statements in this discussion include, but are not limited to: expectations regarding certain of Neo's future results and information, including, among other things, revenue, expenses, revenue growth, capital expenditures, and operations; statements with respect to expected use of cash balances; continuation of prudent management of working capital; source of funds for ongoing business requirements and capital investments; expectations regarding sufficiency of the allowance for uncollectible accounts and inventory provisions; analysis regarding sensitivity of the business to changes in exchange rates; impact of recently adopted accounting pronouncements; risk factors relating to intellectual property protection and intellectual property litigation; and, expectations concerning any remediation efforts to Neo's design of its internal controls over financial reporting and disclosure controls and procedures. Often, but not always, forward-looking information can be identified by the use of words such as “plans”, “expects”, “is expected”, “budget”, “scheduled”, “estimates”, “continues”, “forecasts”, “projects”, “predicts”, “intends”, “anticipates” or “believes”, or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results “may”, “could”, “would”, “should”, “might” or “will” be taken, occur or be achieved. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Neo believes the expectations reflected in such forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this discussion and analysis should not be unduly relied upon. For more information on Neo, investors should review Neo's continuous disclosure filings that are available under its profile at www.sedar.com.

The forward-looking information is only provided as of the date of this MD&A, March 9, 2018, and is subject to change as a result of new information, future events or other circumstances, as discussed above, in which case the forward-looking information will be updated by Neo as required by law.

2. Overview

Neo has established itself as a global leader in the innovation and manufacturing of rare earth- and rare metal-based functional materials, which are essential inputs to high technology, high growth, future-facing industries. Neo has a global platform that includes 10 manufacturing facilities located in China, the U.S., Germany, Canada, Thailand and South Korea as well as two dedicated research and development ("**R&D**") centres in Singapore and the U.K. Neo is the only non-Chinese company with a license to separate rare earth elements ("**REE**s") in China which provides unique competitive advantages and a degree of vertical integration. Since 1994, Neo has leveraged its 24 year history of rare earth separation 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 trichloride ("**$GaCl_3$**") producer for light-emitting diodes ("**LED**s") and growth opportunities into new end markets such as waste water treatment. Neo is organized along three business segments: Magnequench, Chemicals & 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**s") as the primary input. These powders are used in the production of bonded permanent magnets that are components in automotive motors, micro motors, traction motors, sensors and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

C&O

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

Rare Metals

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

Corporate

Neo's head office is located in Toronto, Ontario, 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.

3. Selected Financial Highlights

($000s, except volume)	Year Ended December 31, 2017	Combined Year Ended December 31, 2016 (1)	Three Months Ended December 31, 2017	Successor Three Months Ended December 31, 2016
Volume (in mt)				
Magnequench	6,305	5,369	1,539	1,439
C&O	8,656	8,968	1,923	2,593
Rare Metals	448	373	124	86
Corp / Eliminations	(324)	(318)	(97)	(70)
Consolidated Volumes	**15,085**	**14,392**	**3,489**	**4,048**
Revenue				
Magnequench	202,905	159,238	59,131	40,834
C&O	170,890	164,150	36,212	45,198
Rare Metals	76,009	70,219	19,722	17,465
Corp / Eliminations	(15,635)	(11,477)	(5,613)	(2,489)
Consolidated Revenue	**434,169**	**382,130**	**109,452**	**101,008**
Operating Income (Loss) (2)				
Magnequench	40,986	29,002	12,831	3,298
C&O	16,892	19,930	1,005	2,543
Rare Metals	3,935	(3,960)	720	(4,186)
Corp / Eliminations	(26,988)	(16,128)	(9,840)	(6,260)
Consolidated Operating Income (Loss)	**34,825**	**28,844**	**4,716**	**(4,605)**
Adjusted EBITDA (3)				
Magnequench	49,407	38,131	14,686	9,537
C&O	25,294	24,516	2,359	10,203
Rare Metals	9,123	954	1,951	(40)
Corp / Eliminations	(15,928)	(15,963)	(3,403)	(5,920)
Consolidated Adjusted EBITDA	**67,896**	**47,638**	**15,593**	**13,780**
Cash and cash equivalents	96,805	79,408		
Debt	181	7,925		
Capital Expenditures	12,279	7,314		
Cash taxes paid	9,264	14,679		
Dividends paid to shareholders	24,924	—		

Notes:

(1) See *"Basis of Presentation"* for details on the Combined YE 2016

(2) In accordance with IFRS 3 - Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of $27,062. A portion of this inventory was sold in the YE 2017 and Combined YE 2016 and had a $2,912 and a $24,150, respectively, impact on costs of sales excluding depreciation and amortization. The negative impact on costs of sales excluding depreciation and amortization for the YE 2017 has not been added back to the operating income in the calculation of the YE 2017 results. The $24,150 mark-up (consist of Magnequench $7,126, C&O $11,700, Rare Metals $5,025, Eliminations $299) for the Combined YE 2016, however, has already been added back to operating income in the calculation of the Combined YE 2016 results in the respective segments.

(3) Neo uses references to Adjusted OIBDA and Adjusted EBITDA interchangeably as the use of adjustments in each measure provides the same calculated outcome of operating performance. See *"Non-IFRS Financial Measures"* and details of computation of Adjusted OIBDA

Highlights on the year ended December 31, 2017 compared to the Combined YE 2016

Magnequench

- Volume growth of 17.4% attributable primarily to the focus on energy efficient, precision, micro motors used both in non-automotive and automotive, including traction motors. Magnetic powders sold into the traction motor end market were greater than $10.0 million in YE 2017 compared to $3.0 million in the prior year, representing an increase of over 300%. Volume continued to decline slightly in the Hard Disk Drive ("**HDD"**) segment.

- Adjusted OIBDA of $49.4 million represents a 29.6% increase over the prior year. Magnequench was able to benefit from leverage on incremental volume and some rare earth pricing dynamics (timing related to the pass-through mechanics).

Chemicals & Oxides

- As noted below, in the auto-catalyst segment, the Zibo Jiahua Advanced Material Resources Co., Ltd., ("**ZAMR")** facility implemented a new wastewater treatment system impacting production from August to November 2017. Prior to this, volumes and operating profits increased from the prior year through benefits of leverage, scale and mix dynamics in this growing segment.

- The rare earth separation business benefited from sales price increases and product mix improvements. The segment was able to capitalize on more of their higher value sales opportunities, renewed customer confidence and better integration of the global sales channels that may have affected the operating performance during the restructuring period.

Rare Metals

- The Rare Metals segment improved its operating and financial performance significantly throughout the year achieving an Adjusted OIBDA of $9.1 million compared to $1.0 million in the prior year.

- In particular, strong improvements in the results were realized at the Silmet facility due to a combination of increased volumes, higher flow-through margins, reduced abnormal production costs and operational improvements achieved throughout the year, including headcount reductions, contract re-negotiations and better sales opportunities achieved through further integration with the global sales force.

Highlights on the three month period ended December 31, 2017 compared to the three month Successor period ended December 31, 2016

Magnequench

- Volume growth of 6.9% was slower than the volume growth achieved in the earlier part of the year. Volume growth in the three month period ended September 30, 2017 was 22.8% higher than the prior year due to potential advance customer buying with the planned increase in selling prices (based on rare earth pass through mechanics).

- Adjusted OIBDA of $14.7 million was stronger on a per kilogram basis as selling prices increased as selected rare earth costs increased starting in July 2017. Selling prices increased on a lagged basis (monthly, quarterly, etc.) while the increase in rare earth input costs impact production immediately. Selected rare earth costs began to decline in October 2017 (although they remain higher than the average 2017 costs).

Chemicals & Oxides

- In the auto-catalyst segment, the ZAMR manufacturing plant implemented a new wastewater treatment system that impacted production from August to November 2017. This change impacted revenue, production costs and premium freight costs and the total impact to operating income ranges between $3.0 million to $5.0 million in the three month period ended December 31, 2017. As of December 2017, production capacity has returned to normal but Neo expects to continue to incur additional premium freight costs through the first quarter of 2018 as the supply chain is re-filled.

- Higher rare earth prices benefited the rare earth separation business in the third and fourth quarter of 2017 as Neo was able to capitalize on higher selling prices for inventory which was on hand.

Rare Metals

- The production line at the Silmet facility has returned to full capacity in the fourth quarter of 2017 (following the fire in 2015) with some additional sales and customer trials continuing in the quarter and into 2018.

- The segment was also affected by normal timing differences in realizing sales and a slow-down of sales in Rare Metals' gallium trichloride business due to a fire at a customer location.

Other Cash and Liquidity Highlights for the year ended December 31, 2017

- Neo continues to generate significant positive cash from operations. As at December 31, 2017, Neo had $96.8 million in cash and $0.2 million in debt. This compares to $79.4 million in cash and $7.9 million in debt at December 31, 2016.

- Neo invested $12.3 million in capital expenditures in property, plant and equipment and intangibles for the year ended December 31, 2017. The primary investments related to the wastewater treatment system in ZAMR and to rebuild production capacity in Silmet. The insurance claim related to the Silmet fire is still outstanding (a portion has been previously advanced).

- Neo paid cash taxes of $9.3 million for the year ended December 31, 2017 and $14.7 million for the year ended December 31, 2016. A portion of the cash taxes relate to withholding taxes on dividends received from foreign jurisdictions and are paid when such dividends are paid.

- On November 7, 2017, Neo paid a dividend to its shareholders of $24.9 million.

4. Factors Affecting Neo's Performance

Revenue

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

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

Rare earth prices are affected by supply and demand, and policies and circumstances affecting supply from China, including the continued existence of unlicensed mining operations in China. Most of Neo's custom and standardized element sales are subject to current market pricing. Most of Neo's magnetic powder sales and auto catalyst functional material sales have various forms of raw material pass-through agreements. These agreements generally have mechanisms tied to the pricing of the rare earth elements but are implemented over established time frames (monthly, quarterly, semi-annually and annually). Accordingly, changes in rare earth pricing may have an impact on total revenue.

Costs of sales

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

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

Outside of material cost, Neo's largest costs include labour and benefits, chemical reagents, natural gas, electricity, maintenance, operating supplies, other plant overheads and depreciation and amortization. Some of these costs are fixed and some of these costs are variable. For a portion of the variable costs, adjustments to production levels are made over periods of time. Accordingly, as production volume increases or decreases, average cost per volume produced decreases or increases, respectively. Some of these costs are subject to volume fluctuations and influenced by general economic conditions that are beyond Neo's control.

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

Selling, general and administrative ("SG&A") expense

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

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

Stock-based compensation

The Neo Cayman Holdings, Ltd's ("**Neo Cayman**") management incentive plan was assigned to Neo upon the completion of the Arrangement (defined below). This plan, **(** the **"Legacy Plan")**, was comprised of Share Options ("**Options**"), Restricted Share Units ("**RSU**s"), Performance Stock Units ("**PSU**s") 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 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 Capital Management L.P. ("**Oaktree**"), and its Affiliates ceasing to own at least 51% of the shares of Neo. PSUs and Special PSUs vest in segments upon a liquidity event occurring and achieving Oaktree's internal milestones.

In connection with the Arrangement, Neo has undertaken to issue common shares of Neo ("**Common Shares**") underlying the Stock Units applying the exchange ratio applied in connection with the Arrangement. See *"Basis of Presentation"*. There have been no stock options issued pursuant to the stock option plan of Neo (the "**New Stock Option Plan**") for the period ended December 31, 2017.

R&D

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

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

Finance costs, net

From time to time, Neo may draw upon the various revolving lines of credit available to each subsidiary as part of the cash management strategy for that subsidiary. Financing costs may be incurred as a result of these cash management strategies. In addition, finance costs may be incurred as a result of the re-measurement (each period) of Neo's derivative liability which is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary, Buss & Buss.

Income tax (expense) benefit

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

In the ordinary course of business, there are many transactions for which the ultimate tax outcome is uncertain and estimates are required for exposures related to examinations by tax authorities. Management reviews these transactions and exposures and record tax liabilities based on its assessment of many factors, including past experience and interpretations of tax law applied to the facts of each matter. The determination of tax liabilities is subjective and generally involves a significant amount of judgment, and the final outcome may be different from estimates. A change to these estimates could impact the income tax provision.

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

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

5. Basis of Presentation

Neo'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 of Title 11 of the U.S. Bankruptcy Code (the "**Chapter 11 Cases**") in the U.S. Bankruptcy Court for the District of Delaware. On August 31, 2016, (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 Holdings Ltd. ("**Neo Cayman**"), which is controlled by Oaktree. As a result of the Reorganization, Neo Cayman acquired certain subsidiaries of Molycorp representing downstream business operations denominated Neo Performance Materials Operations (referred to in this MD&A as, the "**Predecessor**"). Following the Reorganization, Neo Cayman has applied IFRS 3, Business Combinations to account for the transfer of ownership of the Predecessor to Neo Cayman. As a result, Neo Cayman financial statements reflect a new basis of accounting that is based on the fair value of assets acquired and liabilities assumed as of the Reorganization date.

On September 12, 2017 OCM Neo Holdings (Cayman), L.P. ("**OCM**") formed Neo, a company incorporated in the province of Ontario, for the purpose of completing a Cayman Islands scheme of arrangement (the "Arrangement") with Neo Cayman and a subsequent public offering of the Common Shares.

On November 30, 2017, Neo finalized the court approved Arrangement with Neo Cayman whereby Neo 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 Neo of Neo Cayman was a transaction amongst entities under common control. Accordingly, Neo 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-acquisition period, including comparative period, is presented based on the historical information of Neo Cayman.

On November 30, 2017, Neo completed an Initial Public Offering ("**IPO**") by way of a Secondary Offering on the Toronto Stock Exchange ("**TSX**") that began trading on December 8, 2017. Neo 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 and their affiliates. Oaktree continues to be the largest and majority shareholder of Neo.

The operations of the Predecessor, which represents the historical financial information of the acquired subsidiaries of Molycorp, upon completion of the Reorganization, is not an existing legal entity for the Predecessor periods preceding the Reorganization as presented in the consolidated and combined carve-out financial statements. Management has prepared combined carve-out financial statements for the purpose of presenting historical financial information of the business of the Predecessor acquired by Neo Cayman as described in Note 1 of the Combined Carve-out Financial Statements for the eight month period ended August 30, 2016 and years ended December 31, 2015 and 2014 to allow comparability with Neo's consolidated financial statements for the periods after the Reorganization.

The calendar year 2016 includes the period in which the Neo operations were part of the Predecessor (the period January 1, 2016 to August 30, 2016) and the period in which the Neo operations were part of Neo Cayman (the period August 31, 2016 to December 31, 2016). For ease of discussion, the period August 31, 2016 to December 31, 2016 is denoted as "**Successor**" to enable the reader to identify the period in 2016 where Neo was owned by Neo Cayman. For periods after December 31, 2016, the term Successor is removed. As noted above, the periods prior to August 30, 2016 are denoted as Predecessor.

All intercompany transactions have been eliminated.

Combination of Predecessor and Successor for the year ended December 31, 2016

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

6. Consolidated Results of Operations

Comparison of the three month period ended December 31, 2017 to the three month Successor period ended December 31, 2016:

($000s)	Three Months Ended December 31, 2017	Successor Three Months Ended December 31, 2016
Revenue	**$ 109,452**	**$ 101,008**
Costs of sales		
Costs excluding depreciation and amortization	75,144	82,386
Depreciation and amortization	2,491	3,205
Gross profit	**31,817**	**15,417**
Expenses		
Selling, general and administrative	20,825	14,380
Stock-based compensation	400	—
Depreciation and amortization	1,587	2,348
R&D	4,289	3,294
	27,101	20,022
Operating income (loss)	**4,716**	**(4,605)**
Other expense	(962)	(385)
Finance costs, net	(28)	(1,087)
Foreign exchange gain (loss)	99	(442)
Income (loss) from operations before income taxes and equity income of associates	**3,825**	**(6,519)**
Income tax expense	(5,239)	(721)
Loss from operations before equity income of associates	**(1,414)**	**(7,240)**
Equity loss of associates and impairment of associates (net of income tax)	(252)	(90)
Net loss	**$ (1,666)**	**$ (7,330)**
Attributable to:		
Equity holders of Neo Performance Materials Inc.	$ (1,903)	$ (7,110)
Non-controlling interest	237	(220)
	$ (1,666)	**$ (7,330)**
Loss per share data attributable to equity holders of Neo Performance Materials Inc.:		
Basic	$ (0.05)	$ (0.18)
Diluted	$ (0.05)	$ (0.18)

The following table illustrates the basis upon which Neo Performance Materials Inc. is presenting the year ended December 31, 2017 ("**YE 2017**") results and the comparative year ended December 31, 2016 (**"Combined YE 2016"**) and year ended December 31, 2015 ("**Predecessor YE 2015**") results:

				Calculation of Combined Period				
($000s)	**Year Ended December 31, 2017**	**Combined Year Ended December 31, 2016**	**Predecessor Year Ended December 31, 2015**	**Period from January 1, 2016 to August 30, 2016**	**Period from April 5, 2016[1], to December 31, 2016**	**Less: Period from April 5, 2016[1] to August 30, 2016**	**Combination Adjustments**	**Combined Year Ended December 31, 2016**
				Predecessor	**Successor**	**Successor**		**Combined**
Revenue	$ 434,169	$ 382,130	$ 396,826	$ 246,818	$ 135,312	$ —	$ —	$ 382,130
Costs of sales								
Costs excluding depreciation and amortization	296,648	271,642	294,670	178,729	117,063	—	(24,150) [2]	271,642
Depreciation and amortization	10,101	11,092	14,832	7,044	4,048	—	—	11,092
Gross profit	**127,420**	**99,396**	**87,324**	**61,045**	**14,201**	**—**	**24,150**	**99,396**
Expenses								
Selling, general and administrative	63,222	49,298	45,419	30,953	18,345	—	—	49,298
Stock-based compensation	6,241	—	—	—	—	—	—	—
Depreciation and amortization	7,418	7,702	18,913	5,151	2,551	—	—	7,702
R&D	15,714	13,552	13,257	9,110	4,442	—	—	13,552
Impairment of goodwill and other long-lived assets	—	—	203,928	—	—	—	—	—
	92,595	70,552	281,517	45,214	25,338	—	—	70,552
Operating income (loss)	**34,825**	**28,844**	**(194,193)**	**15,831**	**(11,137)**	**—**	**24,150**	**28,844**
Other income (expense)	1,803	1,343	(8,326)	1,737	(394)	—	—	1,343
Finance income (costs), net	152	(7,321)	(8,347)	(7,189)	(132)	—	—	(7,321)
Foreign exchange (loss) gain	(466)	(4,826)	7,613	(4,117)	(709)	—	—	(4,826)
Reorganization items	—	(2,471)	(32,187)	(2,471)	—	—	—	(2,471)
Income (loss) from operations before income taxes and equity income of associates	**36,314**	**15,569**	**(235,440)**	**3,791**	**(12,372)**	**—**	**24,150**	**15,569**
Income tax (expense) benefit	(11,893)	(13,928)	9,980	(8,375)	(423)	—	(5,130) [3]	(13,928)
Income (loss) from operations before equity income of associates	**24,421**	**1,641**	**(225,460)**	**(4,584)**	**(12,795)**	**—**	**19,020**	**1,641**
Equity income (loss) and impairment of associates (net of income tax)	972	69	(702)	238	(169)	—	—	69
Net income (loss)	**$ 25,393**	**$ 1,710**	**$ (226,162)**	**$ (4,346)**	**$ (12,964)**	**$ —**	**$ 19,020**	**$ 1,710**
Attributable to:								
Equity holders of Neo Performance Materials Inc.	$ 24,620	$ 1,873	$ (223,842)	$ (4,277)	$ (12,645)	$ —	$ 18,795	$ 1,873
Non-controlling interest	773	(163)	(2,320)	(69)	(319)	—	225	(163)
	$ 25,393	**$ 1,710**	**$ (226,162)**	**$ (4,346)**	**$ (12,964)**	**$ —**	**$ 19,020**	**$ 1,710**

Notes to Combined YE 2016 presentation:

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

(2) In accordance with IFRS 3 - Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of $27,062. A portion of this inventory was sold in the YE 2017 and Combined YE 2016 and had a $2,912 and a $24,150, respectively, impact on costs of sales excluding depreciation and amortization. The negative impact on costs of sales excluding depreciation and amortization for the YE 2017 has not been added back to the operating income in the calculation of the YE 2017 results. The $24,150 mark-up for the Combined YE 2016, however, has already been added back to operating income in the calculation of the Combined YE 2016 results.

(3) Tax effect on the aforementioned adjustment using the blended statutory tax rate of 21.2%.

Revenue

Neo's consolidated revenue for the three month period ended December 31, 2017 was $109.5 million compared to $101.0 million in the prior year; an increase of $8.4 million or 8.4%. For the YE 2017, consolidated revenue was $434.2 million compared to $382.1 million in the Combined YE 2016; an increase of $52.0 million or 13.6%.

The Magnequench segment revenue increased to $59.1 million in the three month period ended December 31, 2017 compared to $40.8 million in the same period of the prior year; an increase of $18.3 million or 44.8%. Magnequench revenue was $202.9 million for the YE 2017 compared to $159.2 million in the Combined YE 2016; an increase of $43.7 million or 27.4%. The Magnequench segment represented 46.7% of consolidated revenue in the YE 2017.

The C&O segment revenue decreased to $36.2 million in the three month period ended December 31, 2017 compared to $45.2 million in the same period of the prior year; a decrease of $9.0 million or 19.9%. C&O revenue was $170.9 million for the YE 2017 compared to $164.1 million in the Combined YE 2016; an increase of $6.7 million or 4.1%. The C&O segment represented 39.4% of consolidated revenue in the YE 2017.

The Rare Metals segment revenue increased to $19.7 million in the three month period ended December 31, 2017 compared to $17.5 million in the same period of the prior year; an increase of $2.3 million or 12.9%. Rare Metals revenue was $76.0 million for the YE 2017 compared to $70.2 million in the Combined YE 2016; an increase of $5.8 million or 8.2%. The Rare Metals segment represented 17.5% of consolidated revenue in the YE 2017.

Inter-segment revenue in the three month and twelve period ended December 31, 2017 was $5.6 million and $15.6 million, respectively, compared to $2.5 million and $11.5 million in the three month Successor period ended December 31, 2016 and the Combined YE 2016. These have been eliminated on consolidation from the C&O segment revenue as C&O sold product to Magnequench, in the respective periods. The products sold to Magnequench are potential marketable third party sales and are generally sold at fair market value.

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

Costs of sales

Consolidated costs of sales, excluding depreciation and amortization was $75.1 million in the three month period ended December 31, 2017 compared to $82.4 million in the same period of the prior year; a decrease of $7.2 million or 8.8%. Pursuant to the Reorganization, Neo applied IFRS 3, Business Combinations to account for the acquisition of the inventory of the Predecessor at fair value which included mark-up for profit. In the three month Successor period ended December 31, 2016, a portion of the remaining post-Reorganization inventory was sold and had a $12.8 million impact on cost of sales, excluding depreciation and amortization. Excluding this, cost of sales increased by $5.6 million in the three month period ended December 31, 2017. Cost of sales, excluding depreciation and amortization increased as a result of additional revenue of $8.4 million in addition to the impacts of sales price, product mix and operational changes in the business segments (see below for further comments).

Consolidated costs of sales, excluding depreciation and amortization was $296.6 million in the YE 2017 compared to $271.6 million in the Combined YE 2016; an increase of $25.0 million or 9.2%. Pursuant to the Reorganization, Neo applied IFRS 3, Business Combinations to account for the acquisition of the inventory of the Predecessor at fair value which included a mark-up for profit. The results of the Combined YE 2016 were adjusted for the impact of the fair value adjustment to inventory recorded as part of the acquisition accounting that occurred on the Reorganization. In the YE 2017, a portion of the remaining post-Reorganization inventory was sold which had a $2.9 million impact on costs of sales, excluding depreciation and amortization. Excluding this, costs of sales increased by $22.1 million in the YE 2017. Cost of sales, excluding depreciation and amortization increased as a result of additional revenue of $52.0 million in addition to the impacts of sales price, product mix and operational improvements in the business segments (see below for further comments).

The reasons for the improved conversion of sales include:

- Benefits in volumes and product mix - much of the revenue increase occurred in Neo's highest margin businesses, the Magnequench segment and the auto catalyst segment (excluding the production slowdown noted below).

- Capturing higher value sales opportunities - Neo was able to direct more of its rare earth molecule sales into higher technical and higher value add processes. This is in part due to increased demand in those segments; capturing more opportunities available in those markets and renewed confidence in Neo's new and existing customers to increase purchasing from Neo in the post-Reorganization environment;

- Higher rare earth prices during a portion of the year - although most of Neo’s business is covered by material pass-through agreements, and an increase in certain rare earth prices in the third quarter of 2017 enabled Neo to capture additional margin from inventory on hand. Since that time, certain rare earth prices have decreased but remain higher than 2017 average levels.

- Reduction in abnormal costs - there were fewer abnormal production and overhead costs in the current period than the prior year. The largest driver for this was in 2016 when Neo recorded a significant charge related to inventory at the Silmet facility that was determined to be less marketable due to the fire at the Silmet facility;

- Continuous operational improvements - in addition to Neo's regular continuous improvement exercises impacting all facilities, Neo conducted some restructuring activities in the Silmet facility. This included changes to the management team, reductions in overall headcounts and renegotiations of certain production cost contracts that have additional and on-going benefits;

- Increased throughput from the Silmet facility - the rare metals production process in the Silmet facility was impacted by a fire in the second quarter of 2015. Through the latter half of 2016 and through 2017, Neo has been able to reconstruct temporary additional capacity and thus create more opportunity for product sales. The newly constructed line at the Silmet facility returned to full capacity by the end of 2017.

- These factors were partially offset by the impact of production change with respect to the auto-catalyst segment where Neo installed a new wastewater treatment system at the ZAMR facility in the period August to November 2017. This change impacted revenue, production costs and premium freight costs, primarily in the three month period ended December 31, 2017.

Consolidated depreciation and amortization in costs of sales were $2.5 million for the three month period ended December 31, 2017 compared to $3.2 million in the same period of the prior year; a decrease of $0.7 million. Consolidated depreciation and amortization in costs of sales were $10.1 million in the YE 2017 compared to $11.1 million in the Combined YE 2016; a decrease of $1.0 million. The year-over-year reduction in depreciation and amortization was mostly attributable to a lower asset base as a result of some assets being further depreciated and changes in the remaining useful lives after applying IFRS 3 - Business Combinations.

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

SG&A expense

Neo's SG&A expense consists primarily of personnel and related costs, including legal, accounting and other professional fees and information technology costs. For the three month period ended December 31, 2017, SG&A expense was $20.8 million compared to $14.4 million in the prior period; an increase of $6.4 million. For the YE 2017, SG&A expense was $63.2 million compared to $49.3 million in the Combined YE 2016; an increase of $13.9 million.

For the Combined YE 2016, SG&A cost includes an allocation of the cost of services previously incurred by Molycorp, which would be required to operate Neo. Management believes these allocations reasonably reflect the expenses for Neo which have been incurred during the periods presented, including administrative and corporate costs relating to certain support functions that were provided on a centralized basis within Molycorp. The support functions provided to Neo by Molycorp included accounting, information technology, taxation, legal, corporate services, corporate governance, and other professional services.

The majority of the additional SG&A expenses incurred in the three and twelve month period ended December 31, 2017 are attributable to the $6.0 million of costs related to the IPO as well as additional legal costs to assist Neo in its defense against infringement suits. See "Legal Contingencies" below.

Stock-based compensation

For the three month and twelve month periods ended December 31, 2017, Neo's consolidated stock-based compensation expenses were $0.4 million and $6.2 million, respectively, compared to nil for the same periods in 2016 as the management incentive plan was put in place following the Reorganization.

Depreciation and amortization

Depreciation and amortization unrelated to production for the three and twelve month periods ended December 31, 2017 of $1.6 million and $7.4 million, respectively, were fairly consistent with $2.3 million in the three month Successor period ended December 31, 2016 and $7.7 million in the Combined YE 2016.

R&D

For the three month period ended December 31, 2017, R&D expense was $4.3 million compared to $3.3 million in the prior period; an increase of $1.0 million. For the YE 2017, R&D expense was $15.7 million compared to $13.6 million in the Combined YE 2016; an increase of $2.2 million. Neo continues to prioritize making strategic and appropriate investments in R&D to develop new applications for its products and to strategically position Neo in meeting customers' needs for technical solutions.

Other income (expenses), net

For the three month period ended December 31, 2017, other expense was $1.0 million compared to $0.4 million in the prior period; an increase of $0.6 million. For the YE 2017, other income was $1.8 million compared to $1.3 million in the Combined YE 2016; an increase of $0.5 million.

The majority of the other expenses for the three month period ended December 31, 2017 was the result of insurance claim preparation fees related to the fire at the Silmet facility, as well as the additional provision recorded for naturally occurring radioactive materials ("**NORM**") at Silmet. See "*Environmental Expenditures*" below.

The majority of the other income for the YE 2017 was from the insurance proceeds received on claims associated with the fire at the Silmet facility (net of costs) and proceeds from the settlement of a Magnequench historical patent infringement case filed, net of legal expenses.

For the Combined YE 2016, the majority of the other income realized is related to insurance proceeds received on claims associated with the fire at the Silmet facility as well as business interruption insurance proceeds received on claims associated with a fire at Buss & Buss' production facility in 2014.

Finance income (costs), net

Finance income, net, for the three and twelve month period ended December 31, 2017 was nominal, compared to finance costs of $1.1 million in the three month Successor period ended December 31, 2016 and $7.3 million for the Combined YE 2016.

On the completion of the Reorganization, the Successor entity has limited outstanding debt for the YE 2017. Finance costs in the three and twelve month periods ended December 31, 2017 relate to access to various revolving lines of credit as part of Neo's cash management strategy and to the re-measurement of Neo's derivative liability which is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary, Buss & Buss. This liability is re-measured at each reporting period with the change in fair value recorded to finance costs. Finance costs in the three month Successor period ended December 31, 2016 and the Combined YE 2016 primarily related to the re-measurement of the put option and the Magnequench term loan and certain related party loans payable to affiliates of Molycorp. Both of these loans were extinguished by way of capital contribution to Neo as part of the Reorganization.

Foreign exchange

For the three month period ended December 31, 2017, Neo's foreign exchange gain was $0.1 million compared to a foreign exchange loss of $0.4 million in the prior period. For the YE 2017, Neo's foreign exchange loss was $0.5 million compared to $4.8 million in the Combined YE 2016.

The foreign exchange loss for the Combined YE 2016 period was primarily driven by the revaluation of pre-Reorganization related party debt which was denominated in Canadian dollars. These related party loans were extinguished as part of the Reorganization on August 30, 2016 and do not exist for the period post-Reorganization being from August 31, 2016 to date. The changes in the foreign exchange gains or losses in the periods after August 30, 2016 primarily relate to changes in foreign exchange on working capital and cash balances of the various Neo global subsidiaries.

Income tax (expense) benefit

Neo had an income tax expense of $5.2 million on income from operations before taxes of $3.8 million in the three month period ended December 31, 2017 and an income tax expense of $11.9 million on income from operations before income taxes of $36.3 million in the YE 2017. Neo had an income tax expense of $0.7 million on loss from operations before taxes of $6.5 million in the three month Successor period ended December 31, 2016 and an income tax expense of $13.9 million on income from operations before income taxes of $15.6 million in the Combined YE 2016 period.

Neo's blended statutory effective tax rate was 9.8% and 18.4% for the three and twelve month periods ended December 31, 2017, respectively. Neo's blended statutory effective tax rate was 18.3% and 22.4% for the three month Successor period ended December 31, 2016 and the Combined YE 2016, respectively. Changes in the blended statutory tax rate are generally caused by different amounts of earnings in each respective jurisdiction as well as changes in local tax rates within those jurisdictions.

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

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

In addition to the above, during the three month period ended December 31, 2017, Neo incurred transaction costs related to the Initial Public Offering that would, generally, not be deductible for tax purposes. In addition, the US federal corporate income tax rate was reduced from 35% to 21%. As a result of this change, Neo reduced its unrecognized deferred tax assets in the US by $2.9 million.

Other Expenditures and Legal Contingencies

Capital Expenditures

Neo capitalized expenditures of $12.3 million for the YE 2017 and $7.3 million for the Combined YE 2016. The majority of these capital expenditures related to capital projects performed at the ZAMR facility, Tianjin facility and the Silmet facility. These capital projects included a combination of maintenance capital (to assist with the continuing development and operations of Neo) and growth capital (to assist in adding new capacity or new products). The majority of the capital projects invested at the Silmet facility pertained to the continuing rebuild of the rare metals production line after the fire in June 2015. This rebuild project is complete with sales and trials currently underway.

Environmental Expenditures

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

The ZAMR facility was designed to make use of waste water treatment and discharge facilities of an adjacent petrochemical complex. There is a variable monthly charge based on the ZAMR facility's usage. The ZAMR facility is also obliged to pay a monthly environmental administration fee to the municipal government of Linzi, China. In both the YE 2017 and Combined YE 2016, ZAMR has paid $0.2 million annually in administration fees.

In the third quarter of 2017, Neo introduced an additional wastewater treatment system into the ZAMR facility. The new system will reduce nitrates contained in the discharge and is part of Neo’s continuing commitment to meet and exceed various environmental regulations. This installation cost $2.5 million (included in the capital spending above) and resulted in a reduction of production capacity from August 2017 to November 2017, through the installation process. The installation is now complete which allowed the ZAMR facility to run at its normal production capacity.

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

Neo's Canadian operations in Ontario are subject to federal, provincial and local regulation and must periodically submit documentation to validate the waste disposal process throughout the year. For the YE 2017, waste disposal costs related to the Rare Metals production facilities totalled $0.2 million (Combined YE 2016 - $0.3 million).

Neo's Silmet facility, in its normal operations, generates hazardous NORM under its current operating permits with the Estonian government which is stored at the site in compliance with applicable laws, regulations and operating permits. As at December 31, 2017, Neo had a provision of $4.7 million for the disposal of NORM and other related costs, which includes the disposal of all the materials present prior to the acquisition of the facility in 2011. The provision increased by $0.3 million from December 31, 2016. This amount represents management's best estimate of the costs to be incurred by Neo to dispose of NORM at the Silmet facility.

Legal contingencies

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

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

Of the various lawsuits initiated and underway, in March 2016, the German Court determined that certain of Neo's products infringed two expired patents of Rhodia Chimie ("Rhodia") (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 Neo's products infringe a third patent (European patent #0605274 ("274")). Neo filed an appeal in each of the three infringement actions and those appeals are still pending.

In September 2016, the German Federal Patent Review Court ruled in Neo's 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 Neo's two other invalidity actions, significantly restricting the claims in one patent and slightly modifying the other. These two Court judgments are subject to ongoing appeals. With respect to these two expired patents for which Neo was found to infringe in Germany, specified damages being sought by Rhodia 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 Neo's products infringed on a German patent (European #1435338 B1). Neo 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.

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

7. Non-IFRS Financial Measures

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

"**Adjusted EBITDA**" is defined as EBITDA before equity income (loss) in associates, other income (expense), foreign exchange loss (gains), reorganization items, stock and value-based compensation, transaction costs associated with the Arrangement and the IPO, impairment of goodwill and other long-lived assets, and acquired inventory fair value release;

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

"**Adjusted Net Income or Loss**" is defined as net income or loss before Reorganization items, foreign exchange loss (gain), stock and value-based compensation, transaction costs associated with the Arrangement and the IPO, impairment of goodwill and other long-lived assets, and acquired inventory fair value release, net of the related tax effects and adjustment to deferred tax asset;

"**Adjusted OIBDA**" is defined as OIBDA before stock and value-based compensation, transaction costs associated with the Arrangement and the IPO, impairment of goodwill and other long-lived assets, acquired inventory fair value release;

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

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

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

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

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

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

The following tables illustrate the comparison of the Adjusted OIBDA for the three and twelve month periods ended December 31, 2017 to the three month Successor period ended December 31, 2016 and the Combined YE 2016:

($000s)	**Three Months Ended December 31, 2017**	**Successor Three Months Ended December 31, 2016**	**Change**	%
Operating income (loss)	**$ 4,716**	**$ (4,605)**	**$ 9,321**	*n.m.*
Add back:				
Depreciation and amortization included in Costs of Sales	2,491	3,205	(714)	
Depreciation and amortization	1,587	2,348	(761)	
OIBDA	**8,794**	**948**	**7,846**	*827.6%*
Acquired inventory fair value release (1)	—	12,832	(12,832)	
Stock and valued-based compensation (2)	802	—	802	
IPO transaction cost (3)	5,997	—	5,997	
Adjusted OIBDA	**$ 15,593**	**$ 13,780**	**$ 1,813**	*13.2%*
Revenue	**109,452**	**101,008**	**8,444**	*8.4%*
Adjusted OIBDA margin	*14.2%*	*13.6%*		

					Calculation of Combined Period		
($000s)	**Year Ended December 31, 2017**	**Combined Year Ended December 31, 2016**	**Change**	%	**Period from January 1, 2016 to August 30, 2016**	**Period from April 5(4), 2016 to December 31, 2016**	**Combined Year Ended December 31, 2016**
					Predecessor	**Successor**	**Combined**
Operating income	**$ 34,825**	**$ 28,844**	**$ 5,981**	*20.7%*	**$ 15,831**	**$ 13,013**	**$ 28,844**
Add back:							
Depreciation and amortization included in Costs of Sales	10,101	11,092	(991)		7,044	4,048	11,092
Depreciation and amortization	7,418	7,702	(284)		5,151	2,551	7,702
OIBDA	**52,344**	**47,638**	**4,706**	*9.9%*	**28,026**	**19,612**	**47,638**
Acquired inventory fair value release(1)	2,912	—	2,912		—	—	—
Stock and valued-based compensation(2)	6,643	—	6,643		—	—	—
IPO transaction cost(3)	5,997	—	5,997		—	—	—
Adjusted OIBDA	**$ 67,896**	**$ 47,638**	**$ 20,258**	*42.5%*	**$ 28,026**	**$ 19,612**	**$ 47,638**
Revenue	**434,169**	**382,130**	**52,039**	*13.6%*	**246,818**	**135,312**	**382,130**
Adjusted OIBDA margin	*15.6%*	*12.5%*			*11.4%*	*14.5%*	*12.5%*

Notes:

(1) In accordance with IFRS 3 Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of $27,062. This inventory was sold in the YE 2017 ($2,912), three month Successor period ended December 31, 2016 ($12,832), Combined YE 2016 ($24,150), and had an impact on operating income. The amounts sold in Combined YE 2016 (with tax effect of $5,130) have already been added back to operating income in the calculation of the Combined YE 2016 results. Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "*Basis of Presentation*". Neo has removed this from operating income to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

(2) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The amount of $402 is included in Selling, general, and administration expenses for the three and twelve month periods ended December 31, 2017. Neo has removed this from OIBDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.

(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 periods ended December 31, 2017. These charges were included in Selling, general and administrative expenses. Neo has removed these charges from OIBDA for the three and twelve month periods ended December 31, 2017 to provide comparability with historic periods.

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

Adjusted OIBDA was $15.6 million or 14.2% of revenue for the three month period ended December 31, 2017 compared to $13.8 million or 13.6% of revenue for the prior year period; an increase of $1.8 million or 13.2%. For the YE 2017, Adjusted OIBDA was $67.9 million or 15.6% of revenue compared to $47.6 million or 12.5% of revenue in the Combined YE 2016 period; an increase of $20.3 million or 42.5%.

Adjusted OIBDA for the three month period ended December 31, 2017 compared to the prior year period was higher in the Magnequench and Rare Metals segments but lower in the C&O segment. The Magnequench segment continued to benefit from increased volumes, and selling price increases primarily from July to September 2017 (due to certain underlying commodity rare earth price increases) before these rare earth prices decreased towards the end of the year (although still higher than 2017 average price levels). Magnequench had higher production costs in the prior three month period ended September 30, 2017, as the rare earth price increase (from pass-through agreements) is generally applied on a monthly or quarterly lagged basis. The Rare Metals segment benefited primarily from the additional capacity available at the Silmet facility and operational improvements implemented earlier in the year. The C&O segment was adversely affected by the production slowdown at the ZAMR facility related to auto catalyst production in the second half of 2017 as the new waste water treatment system was implemented. The implementation caused a slowdown in sales, increased production costs and increased premium freight costs, primarily in the three month period ended December 31, 2017. The installation is now complete which allowed the ZAMR facility to run at its normal production capacity, although some premium freight costs are expected to continue into the first quarter of 2018 as the supply chain continues to re-fill product.

Adjusted OIBDA for the YE 2017 compared to the Combined YE 2016 was higher across all three business segments. A number of reasons related to the improvement in Adjusted OIBDA. With increased revenue of $52.0 million in the YE 2017 compared to the Combined YE 2016, Neo benefited from the related profit conversion on more sales across the business, the impact of sales mix and sale price increases in the REE market generally. This impact includes selling more higher value products; penetrating additional high value add sales opportunities and customers; continued integration of the global sales force with products manufactured at the Silmet facility; and increased international customer confidence having successfully completed the Reorganization. Neo benefited from the continued efforts of various operational improvement programs and in particular, to the change in both increased capacity and reduced headcount and overhead costs at the Silmet facility. In addition, Neo recorded fewer abnormal production and inventory costs than it had recorded in the Combined YE 2016. These positive factors were offset by reduced production in the ZAMR facility noted above and increased legal costs in YE 2017.

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

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

($000s)	Year Ended December 31, 2017	Combined Year Ended December 31, 2016 [8]
Net income	**$ 25,393**	**$ 1,710**
Add back:		
Finance (income) costs, net	(152)	7,321
Income tax expense.	11,893	13,928
Depreciation and amortization included in Costs of Sales	10,101	11,092
Depreciation and amortization	7,418	7,702
EBITDA	**54,653**	**41,753**
Adjustments to EBITDA:		
Equity income in associates	(972)	(69)
Other income [1]	(1,803)	(1,343)
Foreign exchange loss [2]	466	4,826
Reorganization items [3]	—	2,471
Stock and value-based compensation expense [4]	6,643	—
Acquired inventory fair value release [5]	2,912	—
IPO transaction costs [6]	5,997	—
Adjusted EBITDA	**$ 67,896**	**$ 47,638**
Adjusted EBITDA Margins	*15.6%*	*12.5%*
Less:		
Capital expenditures	12,279	7,314
Free Cash Flow	**55,617**	**40,324**
Free Cash Flow Conversion [7]	81.9%	84.6%

Notes:

(1) Represents other income (expenses) resulting from non-operational related activities primarily relating to costs and insurance recoveries as a result of the fire at the Silmet facility. These costs and recoveries are not indicative of Neo's ongoing activities.

(2) Represents unrealized and realized foreign exchange losses/(gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities, primarily related to Canadian dollar denominated related party debt that were extinguished as part of the Reorganization.

(3) These costs are related to legal and other professional advisory fees pertaining to the Chapter 11 Cases, and all adjustments made to the carrying amount of certain pre-petition liabilities reflecting claims allowed by the court. Neo adjusted this to provide comparability with historic and subsequent periods as these are not indicative of its ongoing costs and are not operational in nature.

(4) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The amount of $402 is included in Selling, general, and administration expenses for the three and twelve month periods ended December 31, 2017. Neo has removed this from EBITDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.

(5) In accordance with IFRS 3 Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of $27,062. This inventory was sold in the YE 2017 ($2,912) and Combined YE 2016 ($24,150), and had an impact on net income. The amounts sold in Combined YE 2016 (with tax effect of $5,130) have already been added back to net

income in the calculation of the Combined YE 2016 results. Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "*Basis of Presentation*". Neo has removed this from net income to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

(6) 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 YE 2017. These charges were included in Selling, general and administrative expenses. Neo has removed these charges from the YE 2017 OIBDA to provide comparability with historic periods.

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

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

Reconciliation of Net Income to Adjusted Net Income:

($000s)	**Year Ended December 31, 2017**	**Combined Year Ended December 31, 2016** [9]
Net income	**$ 25,393**	**$ 1,710**
Adjustments to net income:		
Reorganization items [1]	—	2,471
Foreign exchange loss (gain) [2]	466	4,826
Stock and value-based compensation expense [3]	6,643	—
Acquired inventory fair value release [4]	2,912	—
IPO transaction costs [5]	5,997	—
Tax impact of the above items	(1,218)	24
Adjustment to deferred tax asset [6]	—	(1,941)
Adjusted net income	**$ 40,193**	**$ 7,090**
Attributable to:		
Equity holders of Neo Performance Materials Inc./Parent's investment	39,420	7,253
Non-controlling interest	773	(163)
Weighted average number of common shares outstanding [7]:		
Basic	39,800,816	n.m. [8]
Diluted	40,286,402	n.m. [8]
Earnings per share attributable to equity shareholders of Neo Performance Materials Inc.:		
Basic	0.99	n.m. [8]
Diluted	0.98	n.m. [8]

Notes:

(1) These costs are related to legal and other professional advisory fees pertaining to the Chapter 11 Cases, and all adjustments made to the carrying amount of certain pre-petition liabilities reflecting claims allowed by the court. Neo adjusted this to provide comparability with historic and subsequent periods as these are not indicative of its ongoing costs and are not operational in nature.

(2) Represents unrealized and realized foreign exchange losses/(gains) that include non-cash adjustments in translating foreign denominated monetary assets and liabilities, primarily related to Canadian dollar denominated related party debt that were extinguished as part of the Reorganization.

(3) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and

compliance. The amount of $402 is included in Selling, general, and administration expenses for the three and twelve month periods ended December 31, 2017. Neo has removed this from net income to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.

(4) In accordance with IFRS 3 Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of $27,062. The remainder of this inventory was sold in the YE 2017 ($2,912), and Combined YE 2016 ($24,150), and had an impact on net income. The amounts sold in Combined YE 2016 (with tax effect of $5,130) have already been added back to net income in the calculation of the Combined YE 2016 results. Please refer to the table that illustrates the combination of the Predecessor period from January 1, 2016 to August 30, 2016 and the Successor period from August 31, 2016 to December 31, 2016 and the related adjustments. See "*Basis of Presentation*". Neo has removed this from net income to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

(5) These costs are related to legal and professional advisory fees and other transaction costs incurred as a result of the IPO by way of Secondary Offering in the YE 2017. These charges were included in Selling, general and administrative expenses. Neo has removed these charges from the YE 2017 OIBDA to provide comparability with historic periods.

(6) As a result of the Reorganization and the accounting requirements for the recognition of deferred tax assets, Neo's U.S. subsidiaries derecognized and did not record a portion of the deferred tax assets for the Predecessor YE 2015. During the Predecessor period ended August 30, 2016, Neo's U.S. subsidiaries benefited $1,941 from previously unrecognized deferred tax assets.

(7) For the purpose of the basic and diluted earnings per share and weighted average number of common shares outstanding calculation, Neo has elected to represent its comparatives and adjusted its common share capital as if the Arrangement had occurred on April 5, 2016.

(8) As the weighted average number of common shares outstanding at the end of the Combined YE 2016 reflect different basis of accounting, earnings per share is not considered meaningful, and the calculation of basic and diluted earnings per share on a combined year to date basis will not be provided.

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

8. Discussion and Analysis of Reportable Segments

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

8.1 Magnequench

($000s, except volume)	**Three Months Ended December 31, 2017**	**Successor Three Months Ended December 31, 2016**	**Change**	**%**
Operating income	**$ 12,831**	**$ 3,298**	9,533	*289.1%*
Add back:				
Depreciation and amortization included in costs of sales	654	652	2	
Depreciation and amortization	1,070	2,095	(1,025)	
OIBDA	**14,555**	**6,045**	**8,510**	*140.8%*
Acquired inventory fair value release[1]	—	3,492	(3,492)	
Stock and value-based compensation[2]	131	—	131	
Adjusted OIBDA	**$ 14,686**	**$ 9,537**	**$ 5,149**	*54.0%*
Adjusted OIBDA margin	*24.8%*	*23.4%*		
Revenue	59,131	40,834	18,297	*44.8%*
Sales volume (tonnes)	1,539	1,439	100	*6.9%*

($000s, except volume)	Year Ended December 31, 2017	Combined Year Ended December 31, 2016	Change	%	Calculation of Combined Period: Period from January 1, 2016 to August 30, 2016	Period from April 5[3], 2016 to December 31, 2016	Combined Year Ended December 31, 2016
					Predecessor	Successor	Combined
Operating income	**$ 40,986**	**$ 21,876**	**$ 19,110**	*87.4%*	**$ 18,290**	**$ 3,586**	**$ 21,876**
Add back:							
Depreciation and amortization included in costs of sales	2,187	2,430	(243)		1,582	848	2,430
Depreciation and amortization	4,887	6,699	(1,812)		4,482	2,217	6,699
OIBDA	**48,060**	**31,005**	**17,055**	*55.0%*	**24,354**	**6,651**	**31,005**
Acquired inventory fair value release[1]	868	7,126	(6,258)		—	7,126	7,126
Stock and valued-based compensation[2]	479	—	479		—	—	—
Adjusted OIBDA	**$ 49,407**	**$ 38,131**	**$ 11,276**	*29.6%*	**$ 24,354**	**$ 13,777**	**$ 38,131**
Adjusted OIBDA margin	*24.3%*	*23.9%*			*23.5%*	*24.8%*	*23.9%*
Revenue	202,905	159,238	43,667	*27.4%*	103,781	55,457	159,238
Sales volume (tonnes)	6,305	5,369	936	*17.4%*	3,441	1,928	5,369

Notes:

(1) In accordance with IFRS 3 Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of $7,994 for the Magnequench segment. A portion of this inventory was sold in the YE 2017, the three month Successor period ended December 31, 2016 and the Combined YE 2016, and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

(2) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The amount of $124 is included in Selling, general, and administration expenses for the three and twelve month periods ended December 31, 2017. Neo has removed this from OIBDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.

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

For the three month period ended December 31, 2017, revenue in the Magnequench segment was $59.1 million compared to $40.8 million in the three month Successor period ended December 31, 2016; an increase of $18.3 million or 44.8%. Volume increased to 1,539 tonnes compared to 1,439 tonnes in the three month Successor period ended December 31, 2016; an increase of 100 tonnes or 6.9%. For the YE 2017, revenue in the Magnequench segment was $202.9 million compared to $159.2 million in the Combined YE 2016; an increase of $43.7 million or 27.4%. Volume increased to 6,305 tonnes compared to 5,369 tonnes; an increase of 936 tonnes or 17.4%.

As noted above, in the three and twelve month periods ended December 31, 2017, volume increased by 6.9% and 17.4% whereas revenue increased by 44.8% and 27.4%, respectively. During the YE 2017 and in particular during the period

July to September 2017, commodity rare earth prices increased, primarily Nd and Pr, before subsiding again in the latter half of the year (although still higher than 2017 average price levels). As the vast majority of Magnequench's customer contracts contain a material pass-through clause, the increase in rare earth costs generally also created an increase in revenue. Hence the primary increase in rate of revenues over volume relates to this pass-through mechanism.

The majority of the volume increase was attributable to fundamental growth and strength in the underlying industry dynamics and Magnequench's product placement. As noted above, growth came from a combination of the existing core programs as well as growth in some of the new product developments, including MQU. The MQU magnetic powders targeted at the traction motor market increased significantly during the year as the product continued to ramp up in the second half of 2017. The end market now represents greater than $10 million of sales for the YE 2017 compared to $3 million for the Combined YE 2016 and growth is expected to continue.

The Magnequench segment has seen a change in its general product mix and end market application having now focused on more highly engineered and technical sales with a lower emphasis on other product applications where the competitive dynamic in the post-patent environment has changed. There was volume growth across most of Magnequench's end markets including automotive and non-automotive as well as other areas the Magnequench segment identified in its future growth strategy. The volume growth was primarily due to increased sales into electronic power steering, seat motors, trunk motors and other automotive platforms. The HDD segment showed slight declines in both the three and twelve month periods ended December 31, 2017. Volume growth was slower in the three month period ended December 31, 2017 due primarily to timing differences as volumes in the previous three month period ended September 30, 2017 had risen 22.8%.

Operating income for the three month period ended December 31, 2017 increased to $12.8 million from $3.3 million in the three month Successor period ended December 31, 2016; an increase of $9.5 million or 289.1%. On completion of the Reorganization, Neo recognized acquired inventory at fair value, which included a mark-up for profit. The remainder of this inventory was sold prior to the three month period ended December 31, 2017. The impact to costs of sales excluding depreciation and amortization for the three month Successor period ended December 31, 2016 from the sale of a portion of this inventory acquired at fair value was $3.5 million. Depreciation and amortization for the three month period ended December 31, 2017 was lower by $1.0 million compared to the three month Successor period ended December 31, 2016. Stock-based compensation was $0.1 million in the three month period ended December 31, 2017 compared to nil in the prior period.

Operating income for the YE 2017 increased to $41.0 million from $21.9 million in the Combined YE 2016; an increase of $19.1 million or 87.4%. On completion of the Reorganization, Neo recognized acquired inventory at fair value, which included a mark-up for profit. The remainder of this inventory was sold in the YE 2017 and had a $0.9 million impact on costs of sales excluding depreciation and amortization in the YE 2017 compared to $7.1 million for the Combined YE 2016. Depreciation and amortization for the YE 2017 was lower by $2.1 million compared to the Combined YE 2016. Stock-based compensation was $0.5 million in the YE 2017 compared to nil in the prior period.

A number of factors led to the strong growth in operating performance for the three and twelve month periods ended December 31, 2017; volume-based improvements, and continued efforts of various operational improvements. In addition to these volume-based and operational improvements and higher rare earth input costs which caused price resetting throughout the three month period ended December 31, 2017, Magnequench recovered some of the higher production costs incurred in the previous quarter resulting in the very strong increased operating performance in the three month period ended December 31, 2017.

For the three month period ended December 31, 2017, Adjusted OIBDA in the Magnequench segment was $14.7 million compared to $9.5 million in the three month Successor period ended December 31, 2016; an increase of $5.1 million or 54.0%. For the YE 2017, Adjusted OIBDA in the Magnequench segment was $49.4 million compared to $38.1 million in the Combined YE 2016; an increase of $11.3 million or 29.6%.

8.2 C&O

($000s, except volume)	Three Months Ended December 31, 2017	Successor Three Months Ended December 31, 2016	Change	%
Operating income	**$ 1,005**	**$ 2,543**	**$ (1,538)**	*(60.5)%*
Add back:				
Depreciation and amortization included in costs of sales	789	1,324	(535)	
Depreciation and amortization	367	154	213	
OIBDA	**2,161**	**4,021**	**(1,860)**	*(46.3)%*
Acquired inventory fair value release [1]	—	6,182	(6,182)	
Stock and value-based compensation [2]	198	—	198	
Adjusted OIBDA	**$ 2,359**	**$ 10,203**	**$ (7,844)**	*(76.9)%*
Adjusted OIBDA margin	*6.5%*	*22.6%*		
Revenue	36,212	45,198	(8,986)	*(19.9)%*
Sales volume (tonnes)	1,923	2,593	(670)	*(25.8)%*

($000s, except volume)	Year Ended December 31, 2017	Combined Year Ended December 31, 2016	Change	%	Calculation of Combined Period: Period from January 1, 2016 to August 30, 2016	Period from April 5[3], 2016 to December 31, 2016	Combined Year Ended December 31, 2016
					Predecessor	Successor	Combined
Operating income	**$ 16,892**	**$ 8,230**	**$ 8,662**	*105.2 %*	**$ 9,335**	**$ (1,105)**	**$ 8,230**
Add back:							
Depreciation and amortization included in costs of sales	3,360	4,027	(667)		2,416	1,611	4,027
Depreciation and amortization	1,687	559	1,128		358	201	559
OIBDA	**21,939**	**12,816**	**9,123**	*71.2 %*	**12,109**	**707**	**12,816**
Acquired inventory fair value release[1]	2,463	11,700	(9,237)		—	11,700	11,700
Stock and value-based compensation[2]	892	—	892		—	—	—
Adjusted OIBDA	**$ 25,294**	**$ 24,516**	**$ 778**	*3.2 %*	**$ 12,109**	**$ 12,407**	**$ 24,516**
Adjusted OIBDA margin	*14.8%*	*14.9%*			*11.5%*	*21.1%*	*14.9%*
Revenue	170,890	164,150	6,740	*4.1 %*	105,336	58,814	164,150
Sales volume (tonnes)	8,656	8,968	(312)	*(3.5)%*	5,661	3,307	8,968

Notes:

(1) In accordance with IFRS 3 Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of $14,164 for the C&O segment. A portion of this inventory was sold in the YE 2017, the three month Successor period ended December 31, 2016 and the Combined YE 2016 period, and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

(2) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The amount of $181 is included in Selling, general, and administration expenses for the three and twelve month periods ended December 31, 2017. Neo has removed this from OIBDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.

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

For the three month period ended December 31, 2017, revenue in the C&O segment was $36.2 million compared to $45.2 million for the three month Successor period ended December 31, 2016; a decrease of $9.0 million or 19.9%. Volume decreased to 1,923 tonnes compared to 2,593 tonnes in the prior year period, a decrease of 670 tonnes or 25.8%. For the YE 2017, revenue in the C&O segment was $170.9 million compared to $164.1 million in the Combined YE 2016; an increase of $6.7 million or 4.1%. Volume decreased to 8,656 tonnes compared to 8,968 tonnes, a decrease of 312 tonnes or 3.5%.

Volumes in the separated rare earth business are down compared to the prior year primarily due to timing of sales of certain products. The impact of the lower volumes in the rare earth separation business are not considered to be significant. Volumes in the auto catalyst market are flat compared to the prior year. Volumes in the auto catalyst market were ahead of the prior year until the production slowdown in ZAMR that was implemented from August to November 2017 in order to implement the new waste water treatment system. The decrease in volumes was not related to sales opportunities as the market continues to grow.

Revenue was up 4.1% compared to the prior year primarily relating to the increase in rare earth pricing in 2017 compared to the prior year.

Operating income for the three month period ended December 31, 2017 decreased to $1.0 million from $2.5 million in the prior year; a decrease of $1.5 million or 60.5%. On completion of the Reorganization, Neo recognized acquired inventory at fair value, which included a mark-up for profit. The remainder of this inventory was sold prior to the three month period ended December 31, 2017, hence, this fair value release no longer impacted the costs of sales excluding depreciation and amortization. The impact to costs of sales excluding depreciation and amortization for the three month Successor period ended December 31, 2016 from the sale of a portion of this inventory acquired at fair value was $6.2 million. This negatively impacted the C&O segment's operating income in 2016. The C&O segment's depreciation and amortization expense for the three month period ended December 31, 2017 was $0.3 million lower compared to the corresponding period in 2016. Stock-based compensation was $0.2 million in the three month ended December 31, 2017 compared to nil in the prior period.

Operating income for the YE 2017 increased to $16.9 million from $8.2 million in the prior year; an increase of $8.7 million or 105.2%. Operating income was affected significantly by Neo's acquisition of inventory at fair value upon the completion of the Reorganization, which included a mark-up for profit. The remainder of this inventory was sold in the YE 2017 and had a $2.5 million impact on costs of sales excluding depreciation and amortization, compared to $11.7 million impact on costs of sales excluding depreciation and amortization for the Combined YE 2016. Stock-based compensation was $0.9 million in the YE 2017 compared to nil in the prior period.

Operating income had been growing steadily excluding the additional legal costs incurred and prior to the production slowdown in ZAMR to implement the new waste water treatment system in the period August to November 2017, primarily affecting the three month period ended December 31, 2017. This changeover at ZAMR caused a significant impact to operating profit in the year through a slowdown of sales (and related margin), increased production costs during the changeover period and additional premium freight costs to ensure customers continued to receive product in time. The changeover is now complete and ZAMR was running at normal production by the end of the year but some continuing premium freight costs are expected until the supply chain is refilled. Outside of this factor, a number of factors led to strong growth in the operating performance of the segment. Product mix within the rare earth segment yielded positive outcomes with more complex engineered molecules forming a larger portion of the sales base than the prior year. The C&O segment was better able to capitalize on emerging high value add sales opportunities as the restructuring process had been completed; efforts surrounding several operational improvements continued in the Silmet facility including headcount reductions, operating cost reductions as well as global sales integration, and the C&O segment was able to capitalize on higher rare earth prices with lower cost inventory. These positive operating factors were offset as the C&O segment incurred significant legal costs to assist Neo in its defense against the infringement suits filed by Rhodia. See "*Legal Contingencies*" above.

For the three month period ended December 31, 2017, Adjusted OIBDA in the C&O segment was $2.4 million compared to $10.2 million in the three month Successor period ended December 31, 2016; a decrease of $7.8 million or 76.9%. For the YE 2017, Adjusted OIBDA in the C&O segment was $25.3 million compared to $24.5 million in the prior year period, an increase of $0.8 million or 3.2%.

8.3 Rare Metals

($000s, except volume)	**Three Months Ended December 31, 2017**	**Successor Three Months Ended December 31, 2016**	**Change**	**%**
Operating income (loss)	**$ 720**	**$ (4,186)**	**$ 4,906**	*n.m.*
Add back:				
Depreciation and amortization included in costs of sales	1,049	1,229	(180)	
Depreciation and amortization	135	58	77	
OIBDA	**1,904**	**(2,899)**	**4,803**	*n.m.*
Acquired inventory fair value release[1]	—	2,859	(2,859)	
Stock and value-based compensation[2]	47	—	47	
Adjusted OIBDA	**$ 1,951**	**$ (40)**	**$ 1,991**	*n.m.*
Adjusted OIBDA margin	*9.9%*	*(0.2)%*		
Revenue	19,722	17,465	2,257	*12.9%*
Sales volume (tonnes)	124	86	38	*44.2%*

($000s, except volume)	Year Ended December 31, 2017	Combined Year Ended December 31, 2016	Change	%	Calculation of Combined Period: Period from January 1, 2016 to August 30, 2016	Period from April 5[3], 2016 to December 31, 2016	Combined Year Ended December 31, 2016
					Predecessor	Successor	Combined
Operating income (loss)	**$ 3,935**	**$ (8,985)**	**$ 12,920**	***n.m.***	**$ (3,030)**	**$ (5,955)**	**$ (8,985)**
Add back:							
Depreciation and amortization included in costs of sales	4,554	4,634	(80)		3,046	1,588	4,634
Depreciation and amortization	621	280	341		201	79	280
OIBDA	**9,110**	**(4,071)**	**13,181**	***n.m.***	**217**	**(4,288)**	**(4,071)**
Acquired inventory fair value release[1]	(419)	5,025	(5,444)		—	5,025	5,025
Stock and value-based compensation[2]	432	—	432		—	—	—
Adjusted OIBDA	**$ 9,123**	**$ 954**	**$ 8,169**	***856.3%***	**$ 217**	**$ 737**	**$ 954**
Adjusted OIBDA margin	*12.0%*	*1.4%*			*0.5%*	*3.0%*	*1.4%*
Revenue	76,009	70,219	5,790	*8.2%*	45,937	24,282	70,219
Sales volume (tonnes)	448	373	75	*20.1%*	250	123	373

Notes:

(1) In accordance with IFRS 3 Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of $4,605 for the Rare Metals segment. A portion of this inventory was sold in the YE 2017, three month Successor period ended December 31, 2016 and the Combined YE 2016, and had an impact on operating income. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with historic periods.

(2) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The amount of $37 is included in Selling, general, and administration expenses for the three and twelve month periods ended December 31, 2017. Neo has removed this from OIBDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.

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

For the three month period ended December 31, 2017, revenue in the Rare Metals segment was $19.7 million compared to $17.5 million in the three month Successor period ended December 31, 2016; an increase of $2.3 million or 12.9%. Volume increased to 124 tonnes compared to 86 tonnes in the prior year period, an increase of 38 tonnes or 44.2%. For the YE 2017, revenue in the Rare Metals segment was $76.0 million compared to $70.2 million in the Combined YE 2016; an increase of $5.8 million or 8.2%. Volume increased to 448 tonnes compared to 373 tonnes, an increase of 75 tonnes or 20.1%.

Revenue increased by $2.3 million in the three month period ended December 31, 2017. This can be primarily attributed to more sales from the Silmet facility as full production capacity had been restored through 2017. This was offset by lower sales at the Buss & Buss facility which is primarily related to timing as the Buss & Buss facility had been running ahead of prior year up to the three month period ended December 31, 2017 and lower sales in the gallium trichloride business as a customer was impacted by a fire in mid-2017.

Revenue increased by $5.8 million for the YE 2017. This can be attributed to increased sales at each of Silmet and Buss & Buss facilities and the galium trichloride business (primarily during the first half of the year).

Operating income for the three month period ended December 31, 2017 increased to $0.7 million from a loss of $4.2 million in the three month Successor period ended December 31, 2016; an increase of $4.9 million. On completion of the Reorganization, Neo recognized acquired inventory at fair value, which included a mark-down of profit. The remainder of this inventory was sold prior to the three month period ended December 31, 2017, hence, this fair value release no longer impacted the costs of sales excluding depreciation and amortization for the three month period ended December 31, 2017. A portion of the inventory was sold in the three month Successor period ended December 31, 2016 and had a negative impact of $2.9 million on costs of sales excluding depreciation and amortization. This also negatively impacted the Rare Metals segment's operating income in 2016. Depreciation and amortization for the three month period ended December 31, 2017 was $0.1 million lower than prior period. Stock-based compensation was nominal in the three month ended December 31, 2017 compared to nil in the prior period.

Operating income for the YE 2017 increased to $3.9 million from a loss of $9.0 million in the Combined YE 2016; an increase of $12.9 million. Operating income was positively affected by the sale of inventory acquired at fair value with a mark-down of profit in the YE 2017 of $0.4 million in costs of sales excluding depreciation and amortization. A portion of this same inventory was sold in the Combined YE 2016 but had a negative impact of $5.0 million on costs of sales excluding depreciation and amortization. This also negatively impacted the Rare Metals segment's operating income in 2016. Depreciation and amortization for the YE 2017 was $0.3 million higher than the prior year period. Stock-based compensation was $0.4 million in the YE 2017 compared to nil in the prior period.

The improved operating performance was due to product mix and additional sales of high value added products. In particular, strong improvements in results were realized at the Silmet facility due to a combination of increased volumes, higher flow-through margins and continued restructuring and operational improvements. In June 2015, a fire impacted the production capacity of the Silmet Rare Metals business. Since the occurrence of the fire and through the fourth quarter 2017, efforts have been made to both increase the existing production capacity and reduce the overhead structure of the plant in general. During the three and twelve month periods ended December 31, 2017, the plant benefited from the production of more higher-value added products through the reconstructed line and reduced overheads as part of an on-going operational improvement plan. The on-going operational plan included headcount reductions, reductions in certain overhead costs and contracted costs such as energy.

For the three month period ended December 31, 2017, Adjusted OIBDA in the Rare Metals segment was $2.0 million compared to a nominal loss in the prior year period, an increase of $2.0 million. For the YE 2017, Adjusted OIBDA in the Rare Metals segment was $9.1 million compared to $1.0 million in the Combined YE 2016; an increase of $8.2 million.

9. Summary of Consolidated Quarterly Results

($000s, except for earnings per share information)	2017				2016			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
					Successor	**Combined[(1)]**	**Predecessor**	**Predecessor**
Revenue	**$109,452**	**$116,421**	**$101,634**	**$106,662**	**$101,008**	**$ 94,695**	**$ 94,876**	**$ 91,551**
Net (loss) income attributable to equity holders	**(1,903)**	**9,051**	**9,294**	**8,178**	**(7,110)**	**(6,546)**	**1,111**	**(4,377)**
Earnings per share data attributable to equity holders of Neo.:								
Basic EPS	(0.05)	0.23	0.23	0.21	(0.18)	n.a. (6)	n.a. (6)	n.a. (6)
Diluted EPS	(0.05)	0.23	0.23	0.21	(0.18)	n.a. (6)	n.a. (6)	n.a. (6)
Operating income (loss)[(2)]	**4,716**	**11,423**	**7,806**	**10,880**	**(4,605)**	**(1,325)**	**7,362**	**3,262**
Add back:								
Depreciation and amortization included in costs of sales	2,491	2,678	3,150	1,782	3,205	2,604	2,658	2,625
Depreciation and amortization	1,587	2,435	1,711	1,685	2,348	1,467	1,942	1,945
OIBDA	**8,794**	**16,536**	**12,667**	**14,347**	**948**	**2,746**	**11,962**	**7,832**
Add back:								
Acquired inventory fair value release (3)	—	(531)	508	2,935	12,832	11,318	—	—
Stock and value-based compensation (4)	802	860	1,623	3,358	—	—	—	—
IPO transaction costs (5)	5,997	—	—	—	—	—	—	—
Adjusted OIBDA	**$ 15,593**	**$ 16,865**	**$ 14,798**	**$ 20,640**	**$ 13,780**	**$ 14,064**	**$ 11,962**	**$ 7,832**
Adjusted OIBDA margin	*14.2%*	*14.5%*	*14.6%*	*19.4%*	*13.6%*	*14.9%*	*12.6%*	*8.6%*

Notes:

(1) The results for the three month period from July 1 to September 30, 2016 represent the operations of the Predecessor for July 1 to August 30, 2016 combined with the operations of the Successor from August 31 to September 30, 2016.

(2) Operating income (loss) in 2016 is before combination adjustments related to the acquired inventory fair value release.

(3) In accordance with IFRS 3 Business Combinations and on completion of the Reorganization, Neo recorded the acquisition of its inventory at fair value, which included a mark-up for profit of $27,062. A portion of this inventory was sold in the various periods after August 30, 2016 and had an impact on OIBDA. Neo has removed this from OIBDA to provide a measure of operating performance without the non-cash, non-operational accounting change to the inventory and to provide comparability with various periods.

(4) Represents stock and value based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization and the long-term value bonus plan, which has similar vesting criteria to the stock based plan and is settled in cash for non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The amount of $402 is included in Selling, general, and administration expense for the three and twelve month periods ended December 31, 2017. Neo has removed this from OIBDA to provide comparability with historic periods and to treat it consistently with the Share-based plan awards that they are intended to replace.

(5) These costs are related to legal and professional advisory fees and other transaction costs incurred as a result of the IIPO by way of Secondary Offering in the three and twelve month periods ended December 31, 2017. These charges were included in Selling, general and administrative expenses. Neo has removed these charges from the three and twelve month periods ended December 31, 2017 OIBDA to provide comparability with historic periods.

(6) As the weighted average number of common shares at the end of the Combined three month period ended September 30, 2016, three month Predecessor period ended June 30, 2016 and three month Predecessor period ended March 31, 2016 reflect different basis of accounting,

earnings per share is not considered meaningful, and the calculation of basic and diluted earnings per share for these periods have not been provided.

Revenue over the prior eight quarters has shown a general positive growth trend with higher revenue in the third quarter of 2017. Although rare earth prices continue to move and thus impact revenues and costs, movements in the past eight quarters have been smaller than the movements prior to 2016.

Following the Reorganization in August 2016, Neo has been able to better focus on the core downstream operations that form the Neo business. The outcomes of these efforts include penetration of more high value, highly engineered product sales; greater focus on integration into the Neo global sales force; operational improvements, including headcount reductions, contract renegotiations, increased throughput and operational efficiencies, cost cutting efforts and a greater strategic focus on key growth segments. Neo has seen volumes rise and prices begin to settle within the Magnequench business as much of the pricing since the expiration of certain patents, and competitive dynamics have now settled into place. Neo has seen strong growth in the auto catalyst business segment with the ability to deliver high value add and highly engineered products to its customers. Lastly, Neo continues efforts to increase the capacity of the rare metals line at the Silmet facility that was impacted by the fire in 2015.

Adjusted OIBDA over the prior eight quarters have also shown a positive growth trend over the period with a particularly higher quarter in the first quarter of 2017. The fourth quarter of 2017 was also particularly affected by the production slowdown at ZAMR related to the waste water treatment system changes.

10. Liquidity and Capital Resources

For the YE 2017 compared to Combined YE 2016:

($000s)	Year Ended December 31, 2017	Combined Year Ended December 31, 2016	Calculation of Combined Period: Period from January 1, 2016 to August 30, 2016	Period from April 5(1), 2016 to December 31, 2016	Combined Year Ended December 31, 2016
			Predecessor	Successor	Combined
Cash flow:					
Cash provided by operating activities	$ 62,198	$ 42,021	$ 48,536	$ (6,515)	$ 42,021
Cash used by investing activities	(13,773)	(37,314)	(34,308)	(3,006)	(37,314)
Cash used by financing activities	(33,969)	(24,204)	(24,311)	107	(24,204)

Financial position - as at	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 96,805	$ 79,408
Property, plant and equipment	88,392	87,818
Total assets	538,493	513,751
Bank advances and other short term debt	181	7,925

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

At December 31, 2017, Neo had cash and cash equivalents of $96.8 million, compared to $79.4 million as at December 31, 2016. Neo paid a $24.9 million dividend to its shareholders on November 7, 2017. In addition, Neo has approximately $20.7 million available under its credit facilities with nominal amounts drawn. Neo's financial position and ability to generate cash from its operations in the short and long term remain sound.

The primary cash inflows and outflows contributing to the change from December 31, 2016 were:

Inflows

- $64.1 million cash from operations before change in working capital;
- $7.1 million net change in working capital;
- $0.3 million of interest received, net;

Outflows

- $26.2 million of dividends paid (including dividends paid to minority interest partners);
- $12.3 million of capital spending;
- $7.8 million repayment of short-term borrowings; and
- $9.3 million of income taxes paid.

Cash Provided by Operating Activities

Net cash provided by operating activities was $62.2 million during the YE 2017, compared to $42.0 million in the corresponding Combined YE 2016. Higher operating performance in the YE 2017, coupled with $7.0 million less interest paid mainly on related party loans (which were extinguished as part of the Reorganization), contributed to higher cash inflow from operating activities.

The $7.1 million net cash generated in non-cash working capital for the YE 2017, is primarily attributable to increases in accounts payable and accrued charges, primarily due to the timing of raw material purchases and accrued professional costs related to the IPO and accrued legal costs. This is partially offset by $5.6 million used to settle legal and other professional advisory fees related to the Chapter 11 Cases assumed by Neo on completion of the Reorganization and higher accounts receivable due to higher sales.

Cash Used in Investing Activities

For the YE 2017, net cash used in investing activities was $13.8 million, compared to $37.3 million in the Combined YE 2016. Cash used in investing activities for capital expenditures was $12.3 million in the YE 2017, compared to $7.3 million in the prior period; an increase of $5.0 million. These expenditures related primarily to operating capacity expansion, the waste water treatment system at the ZAMR facility, capital maintenance, and the rebuilding of the rare metals production line at the Silmet facility.

In the Combined YE 2016, $30.0 million of the cash used in investing activities was used to pay certain related party loans, net of borrowing from a related party. These loans were extinguished by way of capital contributed in the Reorganization process of Neo.

Cash used in Financing Activities

Net cash used in financing activities during YE 2017 was $34.0 million, compared to $24.2 million in the corresponding period in 2016. In the YE 2017, Neo repaid $7.8 million of the bank advances in China and Germany. Neo also distributed a $24.9 million dividend to its shareholders and a $1.3 million dividend to its non-controlling interest partners. In the prior period, $2.3 million of cash was used to repay the bank advances in China and Germany, $0.6 million was distributed as a dividend to Neo's non-controlling interest partners, a net $6.7 million repayment was made on related party loans, and $14.1 million was distributed to parent's investment prior to restructuring.

($000s)

Cash and cash equivalents by Country as at	December 31, 2017	December 31, 2016
China (including Hong Kong)	$ 54,062	$ 44,877
Estonia	2,334	5,250
United States	3,765	7,622
Canada	2,947	3,273
Japan	3,070	2,122
United Kingdom	2,012	2,785
Germany	5,284	3,022
Singapore	8,449	6,082
Barbados	4,168	314
Thailand	2,178	2,382
Cayman Island	6,562	—
Other	1,974	1,679
Total cash and cash equivalents	**$ 96,805**	**$ 79,408**

Approximately $7.6 million of cash on hand held by Neo's foreign operating subsidiaries relate to earnings that are considered indefinitely reinvested in these foreign subsidiaries. Although substantially all of Neo's cash and cash equivalents can be repatriated, a portion may be subject to withholding taxes under current tax laws. While some of the Neo's subsidiaries are subject to local governmental restrictions on the flow of capital into and out of their jurisdictions (including in the form of cash dividends, loans or advances), these restrictions have not had a material impact on Neo's ability to meet it's cash obligations, and therefore do not consider this to be a significant risk on its ability to meet ongoing commitments and fund operations.

Neo has significant operating history and experience in its primary foreign jurisdictions. Neo has operated in China for over 20 years and has senior and experienced individuals in China that have a strong understanding of the regulatory regime and experience with the processes required to manage capital inflows and outflows in China.

In addition to cash on hand, the primary sources of liquidity for Neo's domestic and foreign subsidiaries are cash provided by operations and, in the case of the activities in China and Germany, borrowing under certain bank loans. From time to time, the sources of liquidity for Neo's operating subsidiaries may be supplemented by intercompany loans in the form of interest bearing unsecured promissory notes. Neo's operating subsidiaries' liquidity generally is used to fund their working capital requirements, investments, capital expenditures and third-party debt service requirements.

The results for the eight month period from January 1 to August 30, 2016 represent the cash flow activities of the Predecessor and the results after August 31, 2016 represent the cash flow activities of the Successor.

For the purpose of performing a comparison, cash provided by operating activities, cash used in investing and financing activities for the Combined YE 2016 were prepared by combining the cash provided by operating activities, cash used in investing and financing activities of the Predecessor from January 1 to August 30, 2016 and the Successor from August 31 to December 31, 2016. No combination adjustment was made to combine the cash inflow and outflow activities of the two periods.

11. Contractual Obligations

In the normal course of business, Neo is obligated to make future payments. These obligations represent contracts and other commitments that are known and non-cancellable.

	Payments Due by Period				
($000s)	1 year	2 - 3 years	4 - 5 years	Thereafter	Total
Operating lease obligations [(1)] . . .	$ 1,863	$ 2,919	$ 2,261	$ 139	$ 7,182
Accounts payable and other accrued charges.	73,177	—	—	—	73,177
Derivative liability [(2)]	—	—	—	9,842	9,842
Provisions [(3)]		4,665	—	—	4,665
Other liabilities	1,777	642	—	—	2,419
Total	**$ 76,817**	**$ 8,226**	**$ 2,261**	**$ 9,981**	**$ 97,285**

Notes:

(1) Represents all operating lease payments for office space, land and office equipment.

(2) Represents the fair value of the put option on shares of the remaining shareholder of Buss & Buss.

(3) Represents management's best estimate of the costs to be incurred by Neo for the disposal of the hazardous NORM currently being stored at the Silmet facility.

As at December 31, 2017, Neo had $96.8 million of cash and cash equivalents. In addition to operating activities in the period from the post-IPO date to December 31, 2017, Neo has approximately $1.0 million of restricted cash in Canada, and $0.6 million of restricted cash in the U.S., both held as collaterals against Letters of Credit. Neo believes that the remainder of its cash, in addition to cash from operating activities, is available (or sufficient) to meet Neo's non-cancelable contractual obligations and other commercial commitments and the capital program for the next twelve months. Neo considers cash to be “available” to the extent it can be utilized in operating activities, for capital expenditures, for intercompany loans or for repatriation. Neo also maintains access to credit facilities and short-term borrowings for its working capital needs, capital expenditures, and general corporate purposes.

12. Subsequent Event

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, Neo and Magnesium Elktron 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 Neo agreed to withdraw its invalidity counterclaim.

13. Off-Balance Sheet Arrangements

As of the YE 2017, Neo's only off-balance sheet arrangements are the operating leases and purchase obligations included in the contractual obligations table above.

Critical Accounting Estimates

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Deferred tax assets

The assessment of the probability of future taxable income in which deferred tax assets can be utilized is based on Neo's expectation of future profitability by legal entity adjusted for significant non-taxable income and expenses as well as limits to the use of loss carryforwards or other tax credits. If a positive forecast of taxable income indicates the probable future use of a deferred tax asset, it is usually recognized in full. Recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed individually by management based on the specific facts and circumstances.

Impairment

An impairment loss is recognized for the amount by which an asset's or cash generating unit's ("**CGU**") carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value-in-use. To determine the value-in use, management estimates expected future cash flows from each asset or CGU and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to Neo's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Business combinations

On initial recognition, the identifiable assets and liabilities of the acquired business are included in the consolidated statements of financial position at their fair values. In measuring fair value management uses estimates about future cash flows and discount rates. Any measurement changes from initial recognition would affect the measurement of goodwill.

Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date at December 31, 2017, management assessed that the useful lives represented the expected utility of the assets to Neo.

Inventories

Inventories are measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the time the estimates are made. Neo's core business is subject to changes in foreign policies and internationally accepted metal prices which may cause selling prices to change rapidly.

Provisions

A provision is recognized if, as a result of a past event, Neo has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Timing or amount of the outflow may still be uncertain. Management estimates the expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted when the time value of money is significant.

Defined benefit pension liability

Management estimates the defined benefit pension liability annually with the assistance of independent actuaries; however, the actual outcome may vary due to estimation uncertainties. The estimate of the defined benefit pension liability is based on estimated retirement ages, medical cost trends and mortality. It also takes into account Neo's specific anticipation of future salary increases. Discount factors are determined based on matching the plan's projected cash flow with the independent actuaries' discount yield curve. Estimation uncertainties exist particularly with regard to medical cost trends, which may vary significantly in future estimates of Neo's defined benefit pension obligations.

Fair value of financial instruments

Management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes to the financial statements regarding financial assets and liabilities. In applying the valuation techniques management makes use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Stock-based compensation

Neo measures the cost of equity-settled transactions with employees and directors by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining and making assumptions about the most appropriate inputs to the valuation model including the expected life, volatility, dividend yield, forfeiture rate and expectations regarding achievement of market conditions and related timing of such achievement. Such assumptions are inherently uncertain and changes in these assumptions affect the fair value estimates.

14. Related Party Transactions and Balances

Neo's related parties are its joint ventures, associates, directors and executive officers.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

Transactions with associates

Neo holds a 33% investment in Toda Magnequench Magnetic Materials Co. Ltd. ("**TMT**"), which produces rare earth magnetic compounds with Magnequench Powders supplied by Magnequench's Tianjin facility in its normal course of business. Magnequench's Tianjin facility will then purchase these compounds back from TMT.

Neo holds a 25% ownership interest in Ganzhou Keli Rare Earth New Material Co., Ltd. ("**Keli**"), a company which converts rare earth oxides into metals for use in Magnequench Powders.

Neo also holds a 20% ownership interest in GQD Special Materials (Thailand) Co., Ltd. ("**GQD**"), a company which converts rare earth oxides into metals for use in Magnequench Powders.

For the YE 2017, Neo 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 YE 2017, Neo sold Magnequench Powders and performed services amounting to $2.8 million to TMT.

For the Combined YE 2016, Neo purchased $1.2 million worth of compounds from TMT, and purchased metals and received services from Keli amounting to $44.1 million. During the year, Neo sold Magnequench Powders and performed services, respectively, amounting to $2.3 million to TMT and minimal to Keli. Neo also received services from GQD amounting to $1.6 million for the Combined YE 2016.

Transactions with related parties

Neo, through its sales company in Japan, Neo Japan, Inc, has occasionally purchased Gallium from Beijing Jiya Semiconductor Material Co., Ltd. ("**Beijing Jiya**") for resale to third party customers. For the YE 2017, these purchases were $0.5 million.

For the Combined YE 2016, Neo Japan, Inc, purchased $1.3 million of Gallium from Beijing Jiya.

Predecessor transactions with related parties

For the Combined YE 2016, the Predecessor purchased $2.2 million of rare earth products from Molycorp Minerals, LLC ("**MMLLC**") and sold $0.1 million rare earth raw materials to MMLLC in the same year. There were no related party transactions with MMLLC in the YE 2017.

Molycorp invested in the capital stock of its subsidiaries by taking part in their formation and acquired shares in the companies as an investment through its wholly owned subsidiaries MCP Exchangeco Inc. ("**Exchangeco**") and Molycorp Luxembourg Holdings S.a.r.l that directly invested in the shares of Neo Material Technologies Inc., (**"NEM"**). NEM was the predecessor entity to Neo Cayman, which was acquired by Molycorp in the Molycorp acquisition. Molycorp and Exchangeco had loans with NEM. Other transactions between NEM and the stockholders are corporate overhead charge-outs, as well as interest income and expense on related party loans. These related party loans were extinguished by way of capital contribution as part of the Reorganization on August 30, 2016 and do not exist for the period post-Reorganization being from August 31, 2016 to date.

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

($000s)	**Year Ended December 31, 2017**	**Combined Year Ended December 31, 2016**
Sale of goods and services to related parties	$ 2,815	$ 2,733
Purchase of goods and services from related parties	71,097	50,332
Corporate overhead charge-out	—	1,764
Interest income	—	4,595
Interest expense	—	3,202

($000s)	**December 31, 2017**	**December 31, 2016**
Trade balances:		
from associates	$ 160	$ 179
due to associates	(12,943)	(10,059)
Total	**$ (12,783)**	**$ (9,880)**

Directors and Key Management Compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Neo, directly or indirectly. Key management personnel include Neo's executive officers, vice-presidents and members of its board of directors.

The following compensation was awarded to key management personnel:

Short-term Employee Benefits

($000s)	Year Ended December 31, 2017	Combined Year Ended December 31, 2016
Directors	$ 227	$ 416
Key Executive Management	4,209	4,341
Total	$ 4,436	$ 4,757

The lower short-term employee benefits for the YE 2017 as compared to the same corresponding Combined YE 2016 was attributed to lower headcount in 2017 from restructuring related to the Reorganization.

Post-employment Benefits

($000s)	Year Ended December 31, 2017	Combined Year Ended December 31, 2016
Directors	$ —	$ —
Key Executive Management	9	7
Total	$ 9	$ 7

Stock-based Compensation Expense

($000s)	Year Ended December 31, 2017	Combined Year Ended December 31, 2016
Directors	$ 647	$ —
Key Executive Management	4,877	—
Total	$ 5,524	$ —

15. Financial Instruments and Risk Management

The following table presents financial assets and liabilities measured at fair value in the consolidated statements of financial position in accordance with the fair value hierarchy. It does not include financial assets and liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level 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:

($000s)	**Level 1**	**Level 2**	**Level 3**
Financial Assets:			
Cash and cash equivalents	96,805	—	—
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss.	—	—	9,842

Neo is exposed to a number of risks in the normal course of business that have the potential to affect its performance. These risk factors include commodity price risk, foreign currency risk, credit risk and liquidity risk.

Commodity price risk

A portion of Neo's current business is conducted in the spot market; therefore, prices can vary with the transaction and individual bids received. Neo's products are primarily marketed to manufacturers as component materials. Prices will vary based on the demand for the end products being produced with the raw materials Neo processes.

Neo's sales and profitability are determined principally by the pricing of the rare earth and rare metals products it produces, and, to a lesser extent, by the price of natural gas and other supplies used in its production process. The prices of the rare earth products are influenced by the price and demand of the end products that Neo's products support, including automotive, electronics and clean energy technologies. A significant decrease in the global demand for these products may have a material adverse effect on Neo's business. Neo does not have hedging contracts for revenue and costs in place.

Neo's costs and capital investments are subject to market movements in other commodities such as natural gas and chemicals. Neo may enter into derivative contracts for a portion of the expected usage of these products, but it does not currently have any derivative contracts on these commodities and it does not currently anticipate entering into derivative agreements on commodities.

Foreign currency risk

Neo is exposed to fluctuations of the U.S. dollar against the functional currencies of its foreign subsidiaries, including the Euro, the Canadian dollar, the Renminbi, the Thai baht and the Japanese Yen, when Neo translates its foreign subsidiaries' financial statements into U.S. dollars for inclusion in its consolidated financial statements. Cumulative translation adjustments are recorded in accumulated other comprehensive income (loss) and a separate component of equity. Any increase (decrease) in the value of the U.S. dollar against those foreign currencies results in unrealized foreign currency translation losses (gains) with respect to assets acquired in, liabilities assumed from, intercompany balances with and results of operations from the foreign subsidiaries. Therefore, Neo may experience a negative impact on its comprehensive income (loss) and stockholders' equity with respect to its holdings in those subsidiaries as a result of foreign currency translation. Neo generally does not hedge against the risk that it may incur non-cash losses upon the translation of the financial statements of its foreign subsidiaries into U.S. dollars.

Credit risk

Neo is exposed to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result, create financial loss. Neo has a large diversified customer base, and is not dependent on any single customer or group of customers. As well, the credit worthiness and financial well-being of its customers are monitored on an ongoing basis.

Neo establishes an allowance for doubtful accounts as determined by management based on their assessment of collection. Therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. No receivables were written off during the year ended December 31, 2017.

Counterparties to financial instruments may expose us to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at December 31, 2017, Neo does not anticipate non-performance that would materially impact its financial statements.

Liquidity risk

Neo is exposed to the possibility that it may not be able to meet its financial obligations as they fall due. Neo manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account its sales and receipts and matching the maturity profile of financial assets and liabilities. Neo continues to maintain sufficient cash and certain credit facilities which can be drawn upon to meet its operating and capital expenditure obligations as needed. The Board reviews and approves the annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisition and other major investments.

As at December 31, 2017, Neo is able to meet its financial obligations as they fall due.

16. Recent Accounting Pronouncements

The following accounting pronouncements issued by the IASB were not effective for Neo as of December 31, 2017 and therefore have not been applied in preparing these consolidated financial statements. Neo intends to adopt these standards, if applicable, when they become effective.

IFRS 15 - Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 ("**IFRS 15**"). IFRS 15 will replace IAS 18 - Revenue, IAS 11 - Construction Contracts and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principle based five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall in the scope of other 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.

Neo completed a preliminary review and accounting assessment of revenue streams and underlying contracts with customers. The majority of Neo's revenues within the scope of IFRS 15 are earned through the sale of products under short and long-term contracts. Neo 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, Neo will recognize the cumulative impact of the initial application of the standard in retained earnings as at January 1, 2018.

Neo does not anticipate the amendments to 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. Neo 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 Neo'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. Neo intends to adopt this standard in its consolidated financial statements for the annual period beginning on January 1, 2018. Neo has assessed the impact of this interpretation on its consolidated financial statements and expects no changes to the exchange rates used to convert Neo's foreign currency transactions and advance consideration.

17. Internal Control Over Financial Reporting and Disclosure Controls and Procedures

As Neo became a reporting issuer during fourth quarter of 2017, it has elected to file an abbreviated Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") certification available to companies in the first reporting period ended after becoming a reporting issuer.

18. Outstanding Shares Data

Class of Equity Security	**Numbers Outstanding**
Common Shares	39,921,577
Stock Options*	1,098,708
Restricted Share Units, Performance Stock Units, & Special Performance Stock Units	1,375,285

*Each stock option can be exercised to purchase one Common Share.

The number of Common Shares outstanding as at March 9, 2018 is 39,921,577.

19. Risk Factors

Common Shares

The holding of Common Shares involves a high degree of risk and should be undertaken only by investors whose financial resources are sufficient to enable them to assume such risks and who have no need for immediate liquidity in their investment. Common Shares should not be purchased or held by persons who cannot afford the possibility of the loss of their entire investment.

Volatility of Price of Common Shares

The market price of the Common Shares could be subject to significant fluctuations in response to various factors, including, but not limited to, variations in the operating results of Neo and its subsidiaries, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for Neo and its subsidiaries, general economic conditions, legislative or regulatory changes, and other events and factors outside of Neo's control.

In addition, the stock markets from time to time have experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of many companies and that often have been unrelated to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of the Common Shares. There can be no assurance that the holders or purchasers of the Common Shares will be able to sell their shares at prices equal to or greater than their cost. As well, general economic and political conditions could adversely affect the market price for the Common Shares.

Dividends

The declaration and payment of future dividends will be at the discretion of the Board and may become subject to restrictions under any credit facilities that may be entered into by Neo and may be affected by various other factors, including, but not limited to, Neo's earnings, financial condition and legal or contractual restrictions. There can be no assurance that Neo will be in a position to pay dividends at the same rate (or at all) in the future.

Moreover, as Neo is a holding company for its operating subsidiaries and does not have any significant operations of its own, dividends or other distributions from its subsidiaries are Neo's principal sources of cash to fund its obligations, including the payment of dividends if declared. There are or may be statutory, contractual, tax or other limitations on the ability of Neo's subsidiaries to make distributions to Neo. If the cash Neo receives from its subsidiaries pursuant to such distributions is insufficient, or if the subsidiaries are unable to make such distributions, Neo may be required to raise cash through the incurrence of debt, the issuance of additional equity or the sale of assets to fund its obligations. However, there can be no assurance that Neo would be able to raise cash by any of these means in a timely manner or on terms that are favourable to Neo.

Financial Reporting and Other Public Company Requirements

Pursuant to becoming a public company, Neo is subject to reporting and other obligations under applicable Canadian securities laws and rules of any stock exchange on which the Common Shares are then-listed, including National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings*. These reporting and other obligations will place significant demands on Neo's management, administrative, operational and accounting resources. In order to meet such requirements, Neo will, among other things, establish systems, implement financial and management controls, reporting systems and procedures and, if necessary, hire qualified accounting and finance staff. However, if Neo is unable to accomplish any such necessary objectives in a timely and effective manner, Neo's ability to comply with its financial reporting obligations and other rules applicable to reporting issuers could be impaired. Moreover, any failure to maintain effective internal controls could cause Neo to fail to satisfy its reporting obligations or result in material misstatements in its financial statements. If Neo cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially adversely effected which could also cause investors to lose confidence in Neo's reported financial information, which could result in a reduction in the trading price of the Common Shares.

Neo does not expect that its disclosure controls and procedures and internal controls over financial reporting will prevent all error or fraud. A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues within an organization are detected. The inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all.

Forward-Looking Information

The forward-looking statements relating to, among other things, future results, performance, achievements, prospects or opportunities of Neo included in this MD&A are based on opinions, assumptions and estimates made by Neo in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors Neo believes are appropriate and reasonable in the circumstances. However, there can be no assurance that such estimates and assumptions will prove to be correct. Actual results of Neo in the future may vary significantly from historical and estimated results and those variations may be material. There is no representation by Neo that actual results achieved by Neo in the future will be the same, in whole or in part. See "*Forward-Looking Information*".

Difficulty in enforcement of judgments

Neo is a holding company, with many of its subsidiaries and the majority of its assets located outside of Canada. Accordingly, it may be difficult for investors to enforce within Canada any judgments obtained against Neo, including judgments predicated upon the civil liability provisions of applicable Canadian securities laws. Consequently, investors may be effectively prevented from pursuing remedies against Neo under Canadian securities laws or otherwise.

Neo has subsidiaries incorporated in Cayman Islands, China, Estonia, the U.K., Germany, Barbados, Thailand and certain U.S. States. Certain directors and officers reside outside of Canada and substantially all of the assets of these persons are located outside of Canada. It may not be possible for shareholders to effect service of process against Neo's directors and officers who are not resident in Canada. In the event a judgment is obtained in a Canadian court against one or more of our directors or officers for violations of Canadian securities laws or otherwise, it may not be possible to enforce such judgment against those directors and officers not resident in Canada. Additionally, it may be difficult for an investor, or any other person or entity, to assert Canadian securities law claims or otherwise in original actions instituted in jurisdiction where Neo's subsidiaries are located. Courts in these jurisdictions may refuse to hear a claim based on a violation of Canadian securities laws or otherwise on the grounds that such jurisdiction is not the most appropriate forum to bring such a claim. Even if a foreign court agrees to hear a claim, it may determine that the local law, and not Canadian law, is applicable to the claim. If Canadian law is found to be applicable, the content of applicable Canadian law must be proven as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by foreign law.

Significant Shareholder

Oaktree holds significant voting power in Neo, and its interests may conflict with or differ from the interests of the other shareholders. As at December 31, 2017, Oaktree holds approximately 64.6% of Neo's issued and outstanding Common Shares. Accordingly, the interests of Oaktree may not be the same as those of Neo's other shareholders, and conflicts of interest may arise from time to time that may be resolved in a manner detrimental to Neo or Neo's minority shareholders.

As long as Oaktree continues to directly or indirectly own a significant amount of the voting power of Neo, it will continue to be able to strongly influence or effectively control the business decisions of Neo. Because Oaktree may have interests that are different from those of the other shareholders of Neo, it may exercise its voting and other rights in a manner that may be adverse to the interests of such other shareholders.

In addition, this concentration of ownership could have the effect of delaying or preventing a change in control or otherwise discouraging a potential acquiror from attempting to obtain control of Neo, which could cause the market price of the Common Shares to decline or prevent shareholders from realizing a premium over the market price for their Common Shares.

Future Sales of Common Shares

Sales of a substantial number of Common Shares in the public market, or the perception that large sales could occur could depress the market price of Common Shares.

Subject to certain contractual limitations, and compliance with applicable securities and exchange laws and regulations, Oaktree and the other shareholders of Neo will be free to sell their Common Shares. However, for a period of 180 days following the completion of the Offering, Oaktree together with Neo's executive officers and directors and each of the shareholders of Neo holding greater than 1% of the Common Shares immediately prior to the completion of the Offering have agreed, subject to certain exceptions, in respect of any securities of Neo held directly or indirectly, not to offer or sell, agree to offer or sell, or enter into agreement to offer or sell any Common Shares or other securities of Neo or securities convertible into exchangeable for, or offered exercisable to acquire any securities of Neo.

In the future, Neo may issue additional securities to raise capital. Neo may also acquire interests in other companies by using a combination of cash and Common Shares or just Common Shares. Neo may also issue securities convertible into Common Shares. Any of these events may dilute a shareholder's ownership interest in Neo and have an adverse impact on the price of the Common Shares. In addition, sales of a substantial amount of the Common Shares in the public market, or the perception that these sales may occur, could reduce the market price of Common Shares. This could also impair Neo's ability to raise additional capital through the sale of Neo's securities.

Dilution

Neo may issue additional Common Shares or Preferred Shares in the future, which may dilute a shareholder's holding in Neo. Neo's articles of incorporation permit the issuance of an unlimited number of Common Shares and an unlimited number of Preferred Shares and shareholders will have no pre-emptive rights in connection with such further issuances. Subject to applicable law and the rules of any stock exchange upon which the Common Shares may then be listed, the directors of Neo have the discretion to determine if an issuance of Common Shares or Preferred Shares is warranted, the price at which such issuance is effected and the other terms of issuance. Also, Neo may issue additional Common Shares upon the exercise of options or other convertible securities, which will result in further dilution to shareholders.

Quarterly Operating Results May Vary

Neo's revenues and results of operations could vary significantly from quarter to quarter due to a variety of factors, many of which are outside of Neo's control. As a result, comparing Neo's results of operations on a period-to-period basis may not be meaningful. Factors that could cause Neo's quarterly results of operations to fluctuate, include, but are not limited to:

- achievement, or failure to achieve, technology or product development milestones needed to allow it to enter identified markets on a cost effective basis;
- changes in underlying rare earth commodity prices;
- disruptions in the production process at any facility where it produces products;
- the timing, size and mix of sales to customers for its products;
- the effects of competitive pricing pressures, including decreases in average selling prices of its products;

- unanticipated expenses associated with changes in governmental regulations and environmental, health and safety standards and enforcement policies;
- departure of executives or other key management employees;
- business interruptions such as earthquakes and other natural disasters;
- its ability to integrate businesses that it may acquire;
- risks associated with litigation in which Neo may be involved from time to time, including intellectual property matters (see "*Risks Related to Intellectual Property*");
- risks associated with the international aspects of its business; and
- changes in general economic, industry and market conditions, both domestically and in its foreign markets.

Due to these factors and others, the results of any quarterly or annual period may not meet management's expectations or the expectations of Neo's investors and may not be meaningful indications of future performance.

Board Discretion

Neo's Board can issue, without shareholder approval, Preferred Shares with voting and conversion rights and convertible debt that could adversely affect the voting power of the holders of Common Shares and reduce the likelihood that such holders will receive dividend payments or payments upon liquidation. Such issuance could have the effect of decreasing the market price of the Common Shares. The issuance of Preferred Shares and/or convertible debt or even the ability to issue Preferred Shares and/or convertible debt could also have the effect of delaying, deterring or preventing a change of control or other corporate action.

The Board and management have broad discretion to use cash reserves, and shareholders will be relying on their judgment regarding the application of this cash. The Board and management might not apply the cash in ways that increase the value of your investment. Until Neo uses the cash, it plans to invest it, and these investments may not yield a favorable rate of return. If Neo does not invest or apply the cash in ways that enhance shareholder value, Neo may fail to achieve expected financial results, which could cause its share price to decline.

Analyst Reports

Research analysts may publish their own quarterly projections regarding Neo's operating results. These projections may vary widely from one another and may not accurately predict the results Neo actually achieves. The trading price of the Common Shares may decline if Neo fails to meet securities research analysts' projections. Similarly, if one or more of the analysts who covers Neo downgrades the Common Shares or publishes inaccurate or unfavourable research about its business, the Common Share price could decline. If one or more of these analysts ceases coverage of Neo or fails to publish reports regularly, the Common Share price or trading volume could decline.

Risks Associated with International Operations

Neo conducts business on an international basis, with factories, offices, and customers in multiple countries, with the attendant difficulties and risks inherent in doing business internationally, including the following:

- burdens to comply with multiple and potentially conflicting foreign laws and regulations, including export requirements, tariffs and other barriers, environmental health and safety requirements and unexpected changes in any of these laws and regulations;
- to the extent cash is held outside of North America, Neo's repatriation of such cash may be subject to the approval of foreign governments and to the potentially adverse impact of foreign and domestic tax laws as well as changes in foreign exchange or capital controls;
- political and economic instability and disruptions, including the imposition of political and economic sanctions that could adversely affect the supply of Russian-sourced feedstock used by Neo's operations in Estonia or the importation of products from China;
- disadvantages of competing against companies from countries that are not subject to Canadian laws and regulations, including the *Corruption of Foreign Public Officials Act* (Canada) ("**CFPO**");

- potentially adverse tax consequences due to overlapping or differing tax structures or changes in tax rates; and
- fluctuations in currency exchange rates.

To Neo's knowledge, it holds all material permits and licences and is in compliance in all materials aspects with applicable laws and regulations in the jurisdictions in which it operates. However, any of these risks could have an adverse effect on Neo's international operations by reducing the demand for its products, reducing the prices at which it can sell its products or increasing its costs, which could result in an adverse effect on the business, financial position, results of operations or cash flows of Neo or its ability to declare and pay future dividends.

In addition, Neo could be adversely affected by violations of the CFPO and similar worldwide anti-bribery laws. The CFPO and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-Canadian officials for the purpose of obtaining or retaining business. Neo's policies mandate compliance with these anti-bribery laws. Neo operates in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local business customs and practices. There can be no assurance that Neo's internal controls and procedures will protect Neo from the reckless or criminal acts committed by employees, consultants or agents of Neo or otherwise ensure compliance with the CFPO. If Neo is found to be liable for CFPO violations or other applicable anti-bribery laws, it could incur criminal or civil penalties or other sanctions, which could have a material adverse effect on its business.

Additionally, certain customers of Neo have requested that it certify whether any "conflict minerals" (as such term is defined in Section 1502 of the *Dodd-Frank Wall Street Reform and Consumer Protection Act*) used in some of its products come from the Democratic Republic of the Congo (or an adjoining country). The Silmet facility has received certifications ("**CFS Certification**") by the Electronic Industry Citizenship Coalition ("**EICC**") that its purchases of tantalum comply with the EICC's Conflict Free Smelter Program. Neo is required to renew its CFS Certification annually and there can be no assurance that such CFS Certification will be renewed in any given year.

Neo's international operations in China and Thailand are subject to a number of special risks including trade barriers, exchange controls and restrictions on currency conversion, political risks and risks of increased duties, taxes, tariffs and governmental royalties, as well as changes in laws, regulations and policies governing operations of foreign-based companies such as embargos. A change in policies by the Chinese or Thai governments could adversely affect Neo's investment in its production facilities by, among other factors, changes in laws or regulations or changes in the interpretation thereof. Despite the activity and progress in developing their legal systems, neither China nor Thailand has a system of laws as comprehensive and predictable as in Canada or the United States. Their legal systems also differ in other ways form the legal systems in Canada and the U.S. which may result in different outcomes than might be expected to occur in Canada or the U.S.

Historically China placed export quotas on the rare earths industry; such quotas were removed in December 2014. Neo remains subject to production quotas and export taxes in China. Further trade barriers or changes to the trade barriers to which Neo faces may adversely impact its business, financial position, results of operations or cash flow because such barriers may:

- limit Neo's inventory and result in decreased revenue;
- restrict Neo from removing product from the respective country, resulting in decreased revenue;
- cause Neo to increase prices resulting in decreased revenue; or
- increase Neo's costs which would result in decreased profits for Neo.

Furthermore, if new trade barriers arise in Neo's key export markets, it may face difficulty in reallocating products to other markets on favourable terms.

Neo could be adversely affected by further changes in China's regulatory environment relating to the rare earth industry, including the imposition of new laws, regulations or policies, or changes in the interpretation thereof, which could restrict or eliminate its ability to continue to operate in China, or to export its products. The Magnequench segment and the production of certain rare earth oxides by the C&O segment for use in auto catalysts are subject to lesser regulation in China than the rare earth separation process, which represents a smaller portion of Neo's business. Any changes or increases to the regulation of these industries could have a material adverse effect on Neo's business. See also "- *Changes in China's Regulation of the Rare Earths Industry*".

Both China and Thailand impose foreign exchange controls and restrictions on currency conversion. In order to move money in or out of China and Thailand, Neo must comply with strict rules and procedures imposed by the respective governments, including timely reporting requirements and the provision of supporting documentation to the requisite authorities in order to obtain the necessary approvals. To date, Neo has not been impeded in its ability to repatriate funds from its operations in China or Thailand, however, Neo could be adversely affected by changes in foreign exchange, capital control or other laws, regulations or policies, or changes in the interpretation thereof, which could restrict its continued ability to do so. Should there be any unexpected delays in processing these requests or any failure to receive the requisite approvals, this could adversely affect Neo's liquidity and its ability to plan for its future liquidity needs.

Political instability in either China or Thailand could have a material adverse effect on Neo. Neo has production facilities in Thailand, which in recent years has been subject to a coup d'état, political unrest, demonstrations, martial law and terrorism. Any succession crisis in the Kingdom of Thailand could cause new or increased instability and unrest. Neo also has production facilities in China, where the government exercises significant control over China's economic growth through strategically allocating resources, controlling the payment of foreign currency-denominated obligations, setting monetary policies and providing preferential treatment to particular industries or companies. Political instability could result in changes to the laws and regulations affecting Neo and for the reasons noted above, may have a material adverse effect on Neo.

Risks Related to Intellectual Property Protection

Proprietary trade secrets and unpatented know-how are very important to Neo's business. Much of the technology used in the markets in which it competes is unprotected by patents, and the commercial success of Neo will depend primarily on its ability to obtain and maintain trade secret protection and confidentiality for Neo's products and methods. To compete in these markets, Neo relies primarily on a combination of trade secret protection, non-disclosure agreements and trademarks to establish and protect proprietary intellectual property rights, including proprietary production processes that are not patented or are otherwise not subject to robust intellectual property protection.

Neo relies on trade secrets to protect certain aspects of its technology, especially where management does not believe that patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. Neo's employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose confidential information to competitors, and confidentiality agreements and non-disclosure agreements may not provide an adequate remedy in the event of unauthorized disclosure of confidential or proprietary information. Enforcing a claim that a third party illegally obtained and is using trade secrets is expensive and time consuming, and the outcome is unpredictable, particularly so in certain foreign jurisdictions. Moreover, competitors of Neo may independently develop equivalent knowledge, methods and know-how. Failure to obtain or maintain trade secret protection could adversely affect Neo's competitive business position.

Where appropriate, Neo intends to rely on patented products and applications, such as using rare earths for auto catalysts, water treatment and bonded magnetic powders. Management is evaluating the current patent portfolio in order to focus its efforts on patents and patent applications that provide value to the businesses of Neo. As a result of this evaluation, Neo may abandon certain patents, decide not to pursue certain patent applications, or file new patent applications.

Neo's ability to obtain additional patents is uncertain and the legal protection afforded by these patents is limited and may not adequately protect its rights or permit it to gain or keep any competitive advantage. It is also costly to apply for and maintain patents in multiple jurisdictions. In addition, the scope and enforceability of patent claims is highly uncertain due to the complex nature of the relevant legal, scientific and factual issues. Changes in either patent laws or interpretations of patent laws may diminish the value of Neo's intellectual property or narrow the scope of its patent protection. Even if patents are issued relating to Neo's products and processes, competitors may challenge the validity of those patents. Patents also will not protect Neo's products and processes if competitors devise ways of making products without infringing such patents.

Intellectual Property Litigation

Neo's intellectual property rights and applications may be challenged, misappropriated, or infringed upon by third parties, or Neo may be unable to maintain, renew or enter into new license agreements with third-party owners of intellectual property on reasonable terms. Identifying unauthorized use of Neo's intellectual property may be difficult, and proceedings to enforce or defend its intellectual property rights could result in substantial costs. The enforcement of intellectual property rights is subject to considerable uncertainty, and patent reform laws, and court decisions interpreting such laws, may create additional uncertainty around the ability to obtain and enforce patent protection for Neo's technologies. These associated challenges facing Neo are often amplified by the international scope of its operations and the differing application of intellectual property rights in various foreign jurisdictions. If Neo seeks to enforce its rights, it may also be subject to claims that its intellectual property rights are invalid or otherwise unenforceable. In addition, intellectual property may be subject to infringement or other unauthorized use. In such case, Neo's ability to protect its intellectual property rights by legal recourse or otherwise may be limited, particularly in countries where laws or enforcement practices are undeveloped or do not recognize or protect intellectual property rights to the same extent as North America. Unauthorized use of intellectual property rights or Neo's inability to preserve existing intellectual property rights could therefore adversely impact its competitive position and results of operations. The loss of Neo's patents could also reduce the value of the related products. In addition, the cost to litigate infringements of Neo's intellectual property, or the cost to defend it against intellectual property infringement actions by others, could be substantial.

There is a risk that Neo may infringe, or may be accused of infringing, the proprietary or intellectual property rights of third parties, including rights under patents and pending patent applications belonging to third parties. Neo is currently the subject of a number of patent infringement actions in Europe, the U.K. and China and certain of its products have been found to infringe two expired patents in Germany, as set out in the section entitled "*Legal Proceedings and Regulatory Actions*". Because the patent application process can take several years to complete, and patent applications may remain unpublished for 18 months or more, there may be currently pending applications, including applications of which Neo is currently unaware, that may later result in issued patents that cover its products and processes. In addition, Neo's products and processes may infringe existing patents.

If Neo infringes, or is accused of infringing, the intellectual property rights of third parties, it may increase Neo's costs or prevent it from being able to sell its existing products or commercialize new products.
Defending Neo against third-party claims, including litigation in particular, would be costly and time consuming and would divert management's attention from the business of Neo. If third parties are successful in their claims, Neo may have to pay substantial damages or take other actions that are adverse to its business. As a result of intellectual property infringement claims, or to avoid potential claims, Neo may be:

- prohibited from, or delayed in, selling or licensing some of its products or using some of its processes unless the intellectual property holder licenses the applicable intellectual property to Neo, which it is not required to do;
- required to pay substantial damages or royalties or grant a cross license to Neo's intellectual property to another intellectual property holder;
- required to redesign a product or process so it does not infringe a third party's intellectual property, which may not be possible or could require substantial funds and time and ultimately result in an inferior product or process; or
- subject to adverse rulings from time to time that may have a material adverse effect upon Neo or upon its operations, cash flows, prospects or financial condition.

In addition, Neo could be subject to claims that its employees, consultants, advisors, and agents, or Neo, have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of third parties.

If Neo is unable to resolve claims that may be brought against it by third parties related to their intellectual property rights on terms acceptable to Neo, in addition to paying substantial damages and royalties, it may lose valuable intellectual property rights and be precluded from offering some of its products or using some of its processes. Neo has been accused of, and in certain cases found to be, infringing certain patents. As is often the case with litigation, the final outcome of such proceedings is uncertain. See "*Legal Proceedings and Regulatory Actions*".

Currency Risk

Neo's financial results are reported in U.S. dollars, which is subject to fluctuations in respect of the currencies of the countries in which it operates. Management expects revenues to continue to be earned in a number of different currencies. Accordingly, fluctuations in the exchange rates of world currencies could have a positive or negative effect on reported results on a consolidated basis. Given the constantly changing currency exposures and the substantial volatility of currency exchange rates, Neo cannot predict the effect of exchange rate fluctuations upon its future operating results. There can be no assurance that Neo will not experience losses in the future from currency devaluations or changes in exchange rates, which could have a material adverse effect on the business, revenues, operating results and financial condition of Neo. In the event of a change in the value of the Renminbi relative to the U.S. dollar, there is no assurance, due to competitive pressure, of a corresponding change in selling prices of Neo's products. Neo exports a significant portion of its products produced in China. These exports are invoiced and paid for primarily in U.S. dollars. Neo does not hedge against the risk of revaluation of the Renminbi, the Yen or the Euro.

Expiry of Joint Venture Agreements

The joint venture agreements in respect of ZAMR and Jiangyin Jia Hua Advanced Materials Resources Co., Ltd. ("**JAMR**") are set to expire in 2023. These agreements may be extended by mutual consent, subject to the receipt of approval from applicable Chinese authorities. While the terms of these agreements do not permit Neo's Chinese partners to unilaterally terminate such agreements, there can be no assurance that the parties will agree to extend the agreements or that they will receive approval from applicable Chinese authorities to do so.

Changes in China's Regulation of the Rare Earths Industry

Neo has operations in China, which is considered to be the world's largest producer and exporter of rare earth products. Nevertheless, citing environmental protection and a need to protect exhaustible natural resources, China has implemented a series of rigorous policies to manage rare earth production and to control exports, through quotas, licenses and taxes. China continues to institute increasingly stringent environmental law, regulations and standards across its rare earths industry, force industry consolidation, constrict rare earths production and promote stockpiling, which, among other things, creates a general lack of certainty among rare earths customers regarding the reliability of the future supply of REEs. The Chinese Ministry of Industry and Information Technology, along with other relevant government departments, plays an active role in supervising and developing regulations affecting the rare earth industry.

Like other industry participants operating in China, Neo's ability to produce certain of its products is subject to certain production quotas and other aspects of China's rigorous regulation of rare earth production. Historically, Neo has been able to secure sufficient quotas to meet its demands. Nevertheless, there can be no assurance that Neo will be able to continue to secure sufficient quotas or that its operations will not be adversely affected by China's ongoing regulation of rare earths production and exports.

Risks Relating to Unauthorized Use of Corporate Chops of Neo's Subsidiaries in China

The chops of Neo's subsidiaries in China are essential to such entities' ability to enter into contracts, conduct banking activities and undertake day-to-day corporate and business activities. Each of Neo's subsidiaries in China uses five chops:

1. *Company Chop*. The Company Chop is used by the senior officer at each subsidiary in China and is required for the daily operations of each such entity. It represents the "signature" of each such entity on documents such as contracts, purchase orders, supply orders, customs and import/export documents or employment

agreements. The use of the Company Chop alone is sufficient to bind an entity unless specifically required by a particular document to be accompanied by an authorized signature. The use of the Company Chop is logged and reviewed on a regular basis to ensure that no irregularities are evident.

2. *Legal Representative Chop*. The Legal Representative Chop is evidence of the Legal Representative's signature and may be substituted by the Legal Representative's actual signature. In order to bind each Chinese subsidiary, this chop must be used in conjunction with the Company Chop.
3. *Contract Chop*. The Contract Chop is used by the senior officer of the Chinese subsidiaries as a substitute for the Company Chop on certain ordinary course agreements with customers and suppliers within predetermined monetary authorization limits only. The use of the Contract Chop alone is sufficient to bind an entity unless specifically required by a particular document to be accompanied by an authorized signature.
4. *Finance Chop*. The Finance Chop is used on certain banking documents by the financial controller of each of Company's subsidiaries in China. Pursuant to the policies of certain banks in China, it must be used in conjunction with an authorized signature and both are required to access such subsidiary's bank accounts. The Finance Chop is used by the chief finance officer at the particular subsidiary.
5. *Invoice Chop*. The Invoice Chop is used by accounting managers of the Chinese subsidiaries to stamp all invoices of the particular entities and is not required to be used in conjunction with other Chops. The Invoice Chop can be replaced by the Finance Chop.

In order to maintain the physical security of these chops, each chop is stored in a secured location accessible only to authorized personnel, who are members of the senior management appointed by Neo. These subsidiaries may also adopt other measures from time to time to protect the chops. Although Neo has implemented such internal control procedures as it feels necessary to monitor the authorized personnel and the use of the chops, there is no assurance that such procedures will prevent all instances of abuse or negligence. Accordingly, if any of Neo's subsidiaries in China authorized personnel misuse or misappropriate the chops, Neo could experience significant disruption to operations until the chops are replaced.

Under Chinese law, in the event a chop is lost, stolen or misplaced, the Legal Representative will: (i) cause the company who owned the lost chop in China to publish an announcement of the loss of chops in designated newspapers; (ii) apply to the local Public Security Bureau for the carving of new chops; and (iii) carve the new chops at places designated by the Public Security Bureau. While Neo and the China subsidiaries have procedures and recourse available to remedy any misuse or misappropriation of the chops, as the chop replacement process would take approximately five business days, there can be no assurance that there would be no adverse effect on the business, results of operations or financial condition of Neo due to such disruptions. The senior officers that are authorized to use the Company Chops at Neo's operating subsidiaries in China are as follows: Wang Dong (formerly Zhang Chengyong who left ZAMR on December 1, 2017), Head of the Administration Department at ZAMR; Xu Qiuxia, Head of the Administration Department at JAMR; Angie Fang, Head of the Administration Department at Magnequench (Tianjin) Co., Ltd. ("**MQTJ**") and Magnequench International Trading (Tianjin) Co., Ltd. ("**MQTJ2**"); and Zhou Linjin, Head of the Administration Department at Shanxi Jia Galaxy Electronic Materials Co., Ltd. ("**SGEM**"). Wei Changbao, Finance Controller, is authorized to use the Finance Chop at ZAMR facility; Zhang Huajun, Finance Manager, is authorized to use the Finance Chop at JAMR facility; Liu Zhenguo, Finance Manager, is authorized to use the Finance Chop at MQTJ and MQTJ2; and Zhang Li, Finance Manager, is authorized to use the Finance Chop at SGEM.

Each of Neo's material operating subsidiaries in China (being MQTJ, MQTJ2, JAMR and ZAMR) has entered into a stamp management agreement (collectively, the "**Custodian Agreements**") with licensed and internationally reputable third party custodians. Tianjin Zhang Ying (Wuqing) law firm has been engaged to act as custodian for MQTJ and MQTJ2 pursuant to Custodian Agreements dated effective December 1, 2017; Jiangyin Chengxin accounting firm has been engaged to act as custodian for JAMR pursuant to a Custodian Agreement dated November 29, 2017; and Zibo Chen Guang accounting firm has been engaged to act as custodian for ZAMR pursuant to a Custodian Agreement dated November 29, 2017. The custodians were selected based on a number of factors, including a recommendation from Neo's legal counsel, that each of the custodians selected is licensed by applicable government authorities on an annual basis, as well as being registered by professional organizations, and the proximity to the plant locations on Neo's operating subsidiaries. Pursuant to the Custodial Agreements, these chops will be stored in separate locked safe boxes on the premises of the subsidiary and the access code for which is in the sole possession of the respective custodian. The Custodian Agreements may only be amended by Neo and the respective custodian. Upon termination of any

Custodian Agreement or removal or replacement of the custodian, Neo has undertaken to issue a press release forthwith a file a material change report in accordance with applicable securities laws. In connection with the IPO, Neo has agreed to appoint a reputable custodian for as long as reasonably required by the Ontario Securities Commission, as principal regulator of Neo. Although, Neo has established a custodial process where management and the employees of Neo's material operating subsidiaries in China do not have access to the Legal Representative Chop and the Company Chop without the Custodian being present in order to provide the same custody and safeguards as if the Company Chop and Legal Representative Chop were stored off-site, there is no assurance that such procedures will effectively prevent all instances of abuse or negligence. Accordingly, if any of our authorized personnel misuse or misappropriate our chops, we could experience significant disruption to our operations until our chops are replaced.

If, in particular, during any period Neo loses effective control of the China subsidiaries as a result of such misuse or misappropriation, the business activities and economic contribution of any such entity could be severely disrupted and Neo may not be able to recover corporate assets that are sold or transferred out of Neo's control in the event of such misappropriation and Neo may not have the financial resources to recover such assets or take appropriate legal action. Neo does; however, have other revenue generating operations in addition to its operations in China, representing an average of approximately 68% of revenue in the last three financial years. As at December 31, 2017 and December 31, 2016, 55% and 56%, respectively, of Neo's cash was located in China. As such, Neo expects to have the necessary financial resources to pursue the appropriate recourses to recover such corporate assets. If Neo loses effective control of the Finance Chop, the Legal Representative will promptly notify the relevant bank that the Finance Chop has been lost, misplaced or stolen and if one of the authorized signatories is implicated, that such individual is no longer an authorized signatory. In addition, Neo can assume control over the China subsidiaries' bank accounts through the combined use of the Company Chop and the Legal Representative Chop. Despite the foregoing, however, the China subsidiaries may experience temporary delays in accessing bank accounts in China. This risk is significantly mitigated by the requirement for the signatures in conjunction with the use of the Finance Chop in banking matters.

Customer Dependence

Each of Neo's three business segments supply products to a limited number of key customers. While Neo's key customers do not overlap among its key business segments, the loss of a key customer could have a material adverse effect on that segment's future performance and that of Neo.

General Economic Conditions

The business of Neo is subject to general economic conditions. Adverse changes in general economic and market conditions could adversely impact demand for Neo's products, prices, revenue, operating costs, results of financing efforts, and the timing and extent of capital expenditures.

Competition

Neo believes its ability to compete successfully depends upon a number of factors, including, but not limited to: global market presence, production facilities in cost-competitive locations, product quality and performance, access to capital, and the pricing policies of its competitors. Some of Neo's competitors have financial resources, and, in some cases, operational resources and strategic advantages, which are substantially greater than those of Neo.

Uncertainty Regarding Chinese Withholding Tax on Indirect Transfers of Chinese Enterprises by Non-Chinese Residents

Neo and its shareholders face uncertainties with respect to taxes imposed by Chinese authorities on previous and potential future indirect transfers of equity interests in enterprises resident in China or other assets attributed to a Chinese establishment of a non-Chinese company, or immovable properties located in China owned by non-Chinese companies, such as Neo's operations in China.

There is uncertainty as to the application of Bulletin 7 (Bulletin on Issues of Enterprise Income Tax on Indirect Transfers of Assets by Non-Chinese Resident Enterprises) or previous rules under Circular 698 (Notice on Strengthening

Administration of Enterprise Income Tax for Share Transfers by Non-Chinese Resident Enterprises). Since Bulletin 7 has only recently been promulgated, it is not clear how it will be implemented. Bulletin 7 (and the resultant taxation) may be determined by the tax authorities to be applicable to Neo's offshore restructuring transactions or sale of the Common Shares or those of Neo's offshore subsidiaries where non-resident enterprises, being the transferors, were involved.

Environmental Liability Exposure

Neo seeks to meet or exceed existing environmental legal requirements in the countries in which it operates. Present or future laws and regulations, however, may adversely affect Neo's operations. Future environmental costs may increase due to changing requirements or costs associated with developing, operating, and closing of production sites and the storage, management and disposal of hazardous materials and wastes, including radioactive materials and wastes.

Neo's C&O and Rare Metals business segments are subject to numerous and increasingly stringent international, national, federal, state, provincial and local laws, regulations and permits, including those pertaining to environmental permitting and licensing, air quality, greenhouse gas, water usage, waste water, pollution, waste management and the handling, storage and disposal of hazardous or radioactive materials and wastes. Pursuant to certain environmental laws, regulations and permits, Neo may be subject to claims for toxic torts, natural resource damages and other liabilities, as well as for the investigation and remediation of soil, surface water, groundwater and other environmental media. Neo's failure to comply with these laws and regulations, or changes in such laws and regulations or the interpretation or enforcement thereof, and to obtain or renew any environmental permits, could have a material adverse effect on Neo's business, financial condition and results of operations.

Specifically, Neo is subject both to Chinese national and local environmental protection regulations that currently impose a graduated schedule of fees for the discharge of waste substances, require the payment of fines for discharges exceeding prescribed standards, and provide for the closure of any facility that fails to comply with orders requiring it to cease or remedy certain activities causing environmental damage. The Silmet facility, JAMR and ZAMR produce waste water from their solvent extraction processes. Effective July 1, 2017, Chinese environmental protection regulations were revised to impose a much lower limit on the discharge of total nitrogen in waste water. In order to comply with the new total nitrogen discharge limits, ZAMR temporarily reduced its rate of production of certain automotive catalyst products while it installed equipment to enable it to meet the new discharge requirement. As at December 31, 2017, ZAMR completed all elements of the new wastewater treatment system which allowed it to run at its normal production capacity. The installation of the new wastewater treatment system cost ZAMR approximately $2.5 million.

As part of the recycling of gallium, indium, and rhenium scrap into saleable metal, waste material is generated during the leaching and ion exchange process. Neo has adequate procedures in place to ensure that waste generated from these processes are appropriately contained and disposed of. Neo's Canadian operations are subject to provincial laws, regulations and permits and must periodically submit documentation to validate the waste disposal process throughout the year. Neo's operations may become subject to new or additional federal and local environmental laws, regulations and regulations from time to time which may have an impact on the operations of Neo.

Neo's operations have used and currently use hazardous materials and have generated and currently generate hazardous and NORM. The Silmet facility has a long history of industrial use, including uranium ore and alum shale processing, as a result of which its operations may have impacted the environment. In addition, some of Neo's operations require the management and disposal of radioactive wastes as well as certain permits with respect to the management and disposal of radioactive materials and waste. There can be no assurance that the necessary permits will be obtained or renewed in the future.

These, together with other unforeseen impacts that its operations may have on the environment, as well as human exposure to hazardous or radioactive materials or wastes associated with its operations, could have a material adverse effect on the business, reputation, results of operation and financial condition of Neo.

Supplies of Raw Materials

Neo is exposed to the volatility in the prices of raw materials because it does not generally have long-term supply contracts. Neo also has exposure to certain geo-political risks that could affect the supply of raw materials. Neo's operations in Estonia, for example, currently source most of its feedstock from Russia and China. Economic or political sanctions imposed on Russia or China could adversely impact Neo's access to its supplies of feedstock. In addition, the Chinese government is actively monitoring and regulating rare earth mining operations. In some cases, it is shutting down or curtailing illegal or environmentally damaging mining activities. This could have an adverse impact on rare earth raw material supply. Although Neo believes there is an adequate supply of rare earth feedstock for its processing facilities, there is no assurance that the prices of such rare earth feedstock will not rise dramatically, in which case the increased cost of production may have a material adverse effect on the profit margins of Neo. Such rises in the prices of rare earth feedstock may be offset by increasing the prices of Neo's rare earth related products, however, there is no assurance that the market will bear such price increases and even if the market will bear such increases, the Magnequench segment will have an increased cost of production since rare earths are a primary raw material. In addition, if market prices for the C&O segment's rare earth and zirconium products decline, there is no assurance that raw material prices will decline sufficiently or in tandem to offset the decline in selling prices. The above could have a material effect on Neo's profit margins. Neo is also dependent on being able to secure an adequate supply of gallium, indium, or rhenium bearing scrap at economic prices to maintain and grow its recycling business in the Rare Metals segment.

Fluctuations in Demand for, and Prices of, Rare Earth Products

Because Neo's primary source of revenue is the sale of rare earth-based engineering materials, changes in demand for, and the market price of, rare earth minerals and products could significantly affect Neo's profitability. There can be no assurance that Neo could successfully pass through any increases in the cost of raw materials to Neo's customers. The value and price of the Common Shares and Neo's financial results may be affected by volatility in the prices of rare earth minerals and products. Rare earth minerals and product prices fluctuate and are affected by numerous factors beyond management's control such as interest rates, exchange rates, inflation or deflation, fluctuation in the relative value of the U.S. dollar against foreign currencies on the world market, global and regional supply and demand for rare earth minerals and products, and the political and economic conditions of countries that produce rare earth minerals and products.

Demand for Neo's products is impacted by demand for downstream products incorporating rare earths, including motors used in hybrid and electric vehicles, auto catalysts and other clean technology products, as well as demand in the general aerospace and electronics industries. Lack of growth in these markets may adversely affect the demand for its products, which would have a material adverse effect on the business of Neo and its results of operations.

Extended periods of high commodity prices may create economic dislocations that may be destabilizing to rare earth minerals supply and demand and ultimately to the broader markets. Strong rare earth mineral prices, as well as real or perceived disruptions in the supply of rare earth minerals, also create economic pressure to identify or create alternate technologies that ultimately could depress future long-term demand for rare earth minerals and products, and at the same time may incentivize development of otherwise marginal mining properties.

Product Recalls

The sale of Neo's products involves the risk of product recalls and associated product liability claims. Some of Neo's products are used in the manufacture of end-products (and, in some instances, may be considered by certain of its customers integral to the manufacture of such products). Neo could face significant liability if its products used, for example, in the manufacture of an automotive catalyst were determined to have contributed to a problem that led to a third-party product recall. No assurance can be given that Neo or its customers will not be subject to voluntary or government-ordered product recalls. If one of Neo's or its customers' products is the subject of a recall, Neo may incur significant costs and reputational damage and suffer loss of customers as a result. In addition, if a person brings a product liability claim or suit against one of Neo's customers, this customer may attempt to seek contribution from Neo. While Neo considers the probability of the occurrence of such an event to be low and attempts to mitigate such risk by negotiating liability limits in its customer contracts when possible, a product recall or successful product liability claim or series of claims against Neo in excess of its insurance coverage for which it is not otherwise indemnified could have an adverse effect on Neo's business, financial condition, results of operations or cash flows.

Rapid Technological Change

Markets for Neo's products are competitive. In addition, the applications that use Neo's products are subject to rapid technological change. For instance, auto catalysts represent a significant portion of the C&O segment's business. As many automotive manufacturers increasingly move towards electric-powered vehicles (electric-only and hybrid), Neo's future successes will depend on its ability to adapt to such changes to provide products that achieve market acceptance. As technologies develop, substitutes may be developed for Neo's products which may have an adverse impact on the marketability of its products. There is a risk that the replacement of Neo's products by other products may have a material adverse impact on its sales.

Changes in Tax Laws

The introduction of new tax laws, regulations or rules, or changes to, or differing interpretation of, or application of, existing tax laws, regulations or rules in Canada or any of the countries in which Neo's operations or business is located, could result in an increase in Neo's taxes, or other governmental charges, duties or impositions. In addition, Neo is eligible, from time to time, for certain tax incentives in various jurisdictions in which it operates, which are subject to change and/or expiry. No assurance can be given that new tax laws, rules or regulations will not be enacted or that existing tax laws will not be changed, interpreted or applied in a manner that could result in Neo's profits being subject to additional taxation or that could otherwise have a material adverse effect on Neo.

Risks of Operations and Insurance

Neo's production and distribution activities are subject to natural hazards and uncertainties including fires, equipment failure, and other risks that can result in personal injuries, loss of life, and property damage. Management believes that the current insurance coverage of Neo's production facilities is in line with industry practice. Neo does not maintain insurance coverage in place for patent infringement, political, or environmental risks because management believes that the premium costs for this additional coverage are in excess of the perceived exposures.

Additional Financing Requirements

Neo may require additional financing in order to make further investments or take advantage of future opportunities. There can be no assurance that Neo will be successful in its efforts to arrange additional financing on terms satisfactory to Neo. If additional financing is raised by the issuance of Common Shares or other forms of convertible securities from treasury, control of Neo may change and shareholders may suffer additional dilution. If adequate funds are not available, or are not available on acceptable terms, Neo may not be able to take advantage of growth opportunities.

Neo's Failure to Manage its Growth Effectively Could Harm its Business and Results of Operations

Neo's growth has placed and may continue to place significant demands on its management and its operational and financial infrastructure. As its operations grow in size, scope and complexity and as Neo identifies and pursues new opportunities, it may need to increase in scale its infrastructure (financial, management, informational, personnel and otherwise). In addition, Neo will need to continue to build on and effectively deploy its corporate development and marketing assets as well as access sufficient new capital, as may be required, and additional supplies of raw materials. The expansion of its infrastructure will require Neo to commit financial, operational and technical resources in advance of an increase in the volume of business, with no assurance that the volume of business will increase. There can be no assurance Neo will be able to respond adequately or quickly enough to the changing demands that material expansion will impose on management, team members and existing infrastructure, and changes to Neo's operating structure may result in increased costs or inefficiencies that it cannot anticipate. Changes as Neo grows may have a negative impact on its operations, and cost increases resulting from its inability to effectively manage its growth could adversely impact its profitability. In addition, continued growth could also strain Neo's ability to maintain reliable service levels for its clients, develop and approve its operational, financial and management controls, enhance its reporting systems and procedures and recruit, train and retain highly-skilled personnel. Neo places great importance on its culture, which it believes has been an important contributor to its success. As Neo grows, it may have difficulty maintaining its culture or adapting it sufficiently to meet the changing needs of its operations. Among other important factors, Neo's culture depends on its ability to attract, retain and motivate employees. Neo's failure to foster and maintain its corporate culture could also harm its business and results of operations. Failure to effectively manage growth could result in difficulty or delays in servicing clients, declines in quality or client satisfaction, increases in costs, difficulties in introducing new products or applications or other operational difficulties, and any of these difficulties could adversely impact Neo's business performance and results of operations.

Potential for Incurring Unexpected Costs or Liabilities as a Result of Acquisitions

Neo may in the future pursue strategic acquisitions that it believes would expand its product offerings and capabilities or complement its business. While management has considerable experience in making such acquisitions and integrating them, any such acquisition that Neo makes will be accompanied by the risks commonly encountered in acquisitions of businesses. The process of integrating acquired businesses, products or technologies may create unforeseen operating difficulties and expenditures. Neo may have difficulty integrating and assimilating the operations and personnel of any acquired companies, realizing anticipated synergies and maximizing the financial and strategic position of the combined enterprise. Neo may incur costs necessary to reorganize, expand or otherwise modify existing operations to meet future production needs, and may also incur closure and carrying costs for portions of properties, for which it has no operational uses. Neo may also have difficulty maintaining uniform standards, policies and controls across the organization. The process of integrating acquired businesses may also result in a diversion of management's attention and cause an interruption of, or loss of momentum in, its activities.

Additionally, any acquisition that Neo makes may result in the assumption of material liabilities. Businesses and properties Neo acquires may be in an unexpected condition and may subject it to increased costs and liabilities, including environmental liabilities. The costs and liabilities associated with known risks may be greater than expected, and Neo may assume unknown liabilities, either of which could have a material adverse effect on its business, financial condition and results of operations. Foreign acquisitions involve risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries. As a result of these risks, the anticipated benefits of these acquisitions may not be fully realized, if at all, and the acquisitions could have a material adverse effect on the business, financial condition and results of operations of Neo.

Dependence on Good Relations with Employees

Neo's success depends on the skills and abilities of its employees. There is keen competition for engineers and others with industry expertise. Neo's ability to hire and retain such persons is key to its operations. A shortage of skilled labour could impact on its planned internal growth or require it to use less skilled employees which could adversely affect Neo's ability to carry out its work. Further, relations with employees may be affected by changes in the scheme of labour relations that may be introduced by relevant government authorities in the jurisdictions in which Neo conducts business. Changes in such legislation or otherwise in relationships with Neo's employees may result in strikes, lockouts or other work stoppages, any of which could have a material adverse effect on the operations, results of operations and financial condition of Neo. As of December 31, 2017, 123 employees at the Silmet facilities were unionized employees. A work stoppage at the Silmet facilities could similarly have a material adverse effect on the operations, results of operations and financial condition of Neo.

Reliance on Key Personnel

Neo depends on the services of its senior management team and other key personnel. The loss of the services of any member of senior management or a key employee could have an adverse effect on Neo's business. Neo may not be able to locate, attract or employ on acceptable terms qualified replacements for senior management or other key employees if their services are no longer available.

Information Technology and Cybersecurity

Neo is dependent upon information technology systems in the conduct of its operations. Neo's information technology systems are subject to disruption, damage or failure from a variety of sources, including, without limitation, fire, power loss, telecommunications failures, computer viruses and disabling devices, security breaches, cyber-attacks, natural disasters and defects in design.

Exposure of Neo's information technology systems to external threats poses a risk to the security of these systems. Such cyber-security threats include denial or services attacks, unauthorized access to information technology systems due to hacking, viruses and other causes that can result in service disruptions, system failures and disclosure, deliberate or inadvertent, of confidential business information.

Damage, disruption, or failure of one or more information technology systems may result in interruptions to Neo's operations. Systems failures could result in reputational damage to the business and cause Neo to incur significant costs and third party liability. Various measures have been implemented to manage the risks related to Neo's information technology systems, but the business, financial position or results of operations of Neo could be adversely impacted by such interruptions.

Neo could also be adversely affected by system or network disruptions if new or upgraded information technology systems are defective, not installed properly or not properly integrated into its operations.

20. Legal Proceedings and Regulatory Actions

Legal Proceedings

From time to time, Neo and its subsidiaries are subject to litigation claims arising in the ordinary course of business, most of which involve alleged violations of the intellectual property rights of others. Neo manufactures and sells many products that use scientific formulations and processes, and its competitors may from time to time allege that they hold a patent on such formulations or processes that Neo has infringed. Neo generally believes that it has meritorious defenses to the actions that have been brought against it and vigorously pursues the defense of each such action, including but not limited to initiating legal proceedings to revoke or invalidate the patents Neo is alleged to have infringed. However, litigation outcomes are inherently unpredictable and may be even harder to predict for patent litigation since patents are issued separately by each country or applicable jurisdiction with different standards for infringement or invalidation, as well as differing levels of damages, including as a result of the number of customers and level of activity of Neo in a given country or jurisdiction.

If many or most of the proceedings initiated against Neo in respect of the patents held by others described below are finally determined in a manner adverse to Neo, there can be no assurance that such determinations would not have a material adverse effect upon Neo or upon its operations, cash flows, prospects or financial condition, and in some countries (or jurisdictions) listed below, management expects that an injunction or other remedy imposed for infringement will be materially adverse to Neo. It is not possible at this time to predict with any degree of certainty the impact upon Neo's operations in the event of such final adverse determinations. If injunctions were granted against it, Neo would be prohibited from manufacturing and distributing certain products in those jurisdictions subject to those injunctive orders. Neo could, in such event, re-establish its manufacturing capability for such products in jurisdictions not prohibited by any such orders, and thus would expect to encounter interruptions in its manufacturing of such products and in its ability to distribute such products to customers in jurisdictions not subject to such orders. The litigation proceedings described in this section affect certain products manufactured by Neo's C&O segment for use in auto catalysts. Neo manufactures a wide variety of products that are used in the production of auto catalysts, which accounted for approximately 18% of total revenue in the twelve month period ended December 31, 2017. These products include multiple formulations in multiple jurisdictions to a number of different customers. We note; however, these claims do not affect all of the products manufactured by Neo's C&O segment, for use in auto catalysts nor do these claims pertain to all markets where such products are sold. Neo is not currently restricted with respect to the manufacture or distribution of any of its products as a result of ongoing litigation. However, in the event of final adverse determinations, Neo expects to take all available actions to mitigate the impacts of such rulings, including but not limited to continuing to pursue invalidation of the applicable patent (if not already decided) appealing the adverse rulings, obtaining licensing rights and finding new customer outlets. The geographically diverse nature of Neo's operations and that of certain of its customers potentially provides Neo with a measure of flexibility to manufacture the same products in certain other jurisdictions and continue to supply certain of its customers with the same products in certain other jurisdictions. Neo also has the ability to work with customers to develop new products that may have a lower risk of potentially falling within the scope of existing patent claims.

Where appropriate, accruals are made in accordance with accounting standards for contingences to provide for matters that are probable of resulting in an estimated loss. Based upon the status of the various cases, management's assessments of the likelihood of damages, and the advice of counsel, Neo has made accruals, as of December 31, 2017, for some of the proceedings outlined below, where Neo believes it would be more likely than not be liable for damages and other outflows of resources. Neo considers some of the other outstanding litigation as currently being too uncertain to result in accruals. Several of these actions are at a preliminary stage and have not gone to trial.

As mentioned above the laws concerning patents differ from country to country. Damages for patent infringement in Europe and China may include lost profits or a reasonable royalty, but enhanced damages for wilful infringement are generally not available, unlike the case in the United States.

The following summary provides details of certain legal proceedings to which Neo and its subsidiaries is or was a party to, or to which its property is or was the subject of since January 1, 2016.

As noted below, many of the claims of alleged infringement are made by the same parties, initiated in different jurisdictions involving the same or similar patents, some of which have expired.

European Patent #EP 1527018 B1 Litigation

On August 17, 2016, Molycorp Chemicals & Oxides (Europe) Ltd. ("**Molycorp C&O Europe**"), now Neo Chemicals & Oxides (Europe) Ltd. ("**Neo C&O Europe**"), initiated opposition proceedings before the European Patent Office requesting that it revoke European patent #EP 1527018 B1 pertaining to rare earth mixed oxides for use in automotive catalysts ("**018**") previously granted to Rhodia Opérations SAS ("**Rhodia Operations**") in November 2015 on the basis of its invalidity. A hearing has been scheduled for September 27, 2018, thus, no decision has been issued. Except for certain evidentiary measures, Rhodia Operations has to date not initiated proceedings in Europe against Neo or any of its subsidiaries alleging infringement of the applicable patent.

On December 20, 2016, Rhodia Operations and Daiichi Kigenso Kagaku Kogyo Co, Ltd. ("**DKKK**") without notice applied for an *ex parte* evidentiary seizure in the District Court of Amsterdam against Neo C&O Europe, Molycorp Minerals Canada ULC ("**Molycorp Minerals**"), now Neo Performance Materials ULC ("**Neo ULC**"), ZAMR and Neele-Vat Amsterdam B.V. ("**Neele-Vat**"), based on alleged infringement of 018, European patent #1894620 B1 pertaining to rare earth mixed oxides for use in automotive catalysts ("**620**") granted to DKKK in September 2016 and European patent #0955267 pertaining to rare earth mixed oxides for use in automotive catalysts ("**267**") granted to Solvay Special Chem Japan, Ltd. The court granted the request on an *ex parte* basis on January 17, 2017 and allowed an evidentiary seizure for use in infringement proceedings in Europe of 018, 620 and 267 and for determining potential tort liability. The parties have reached an agreement concerning the disclosure of the seized material and the use thereof by Rhodia Operations in potential infringement proceedings.

Chinese Patent #Z 03817110.4 Litigation

On August 21, 2015, Rhodia Operations and DKKK initiated a patent infringement action in China against ZAMR before the Shandong Higher People's Court, alleging infringement of Chinese patent #ZL03817110.4 pertaining to rare earth mixed oxides for use in automotive catalysts ("**110**"). Both 110 and 018 contain the same claims. On September 29, 2016, the Supreme People's Court ruled that the case should be sent to the Zibo Intermediate People's Court for adjudication. In response to the infringement action, on December 15, 2015, ZAMR initiated an action before the Chinese Patent Re-examination Board requesting that it invalidate 110. A hearing took place on May 17, 2016, and a decision is still pending. On March 28, 2017, Rhodia Operations and DKKK refiled the case before the Zibo Intermediate People's Court. Rhodia Operations and DKKK are seeking an injunction, damages of RMB20 million (approximately $3 million) and legal costs. Two preliminary hearings were held in 2017 and further substantive hearings are pending.

European Patent #1894620 B1 Patent Litigation

On June 21, 2017, Neo C&O Europe initiated opposition proceedings before the European Patent Office, requesting that it revoke 620 on the basis of its invalidity. A hearing date has not yet been set and thus, no decision has been issued. Except for certain evidentiary measures, Rhodia Operations and/or DKKK have not yet initiated proceedings in Europe against Neo and/or its subsidiaries, alleging infringement of 620. Unless invalidated, 620 expires on August 21, 2027. On December 20, 2016, Rhodia Operations and DKKK without notice applied for an *ex parte* evidentiary seizure in the District Court of Amsterdam against Neo C&O Europe, Molycorp Minerals (now, Neo ULC), ZAMR and Neele-Vat, based on alleged infringement of 620, 018 and 267. The District Court of Amsterdam granted the request on an *ex parte* basis on January 17, 2017 and allowed an evidentiary seizure for use in infringement proceedings in Europe of 620, 018 and 267 and determining potential tort liability. The parties have reached an agreement concerning the disclosure of the seized material and the use thereof by Rhodia Operations in infringement proceedings.

Chinese Patent #ZL 200710146613.6 Litigation

On August 21, 2015, Rhodia Operations and DKKK initiated a patent infringement action in China against ZAMR before the Shandong Higher People's Court, alleging infringement of Chinese patent #ZL 200710146613.6 pertaining to rare earth mixed oxides for use in automotive catalysts ("**613**"). Both 613 and 620 contain the same claims. On September 29, 2016, the court ruled that the case should be sent to the Zibo Intermediate People's Court for adjudication. In response to the infringement action, on December 15, 2015, ZAMR initiated an action before the Chinese Patent Re-examination Board requesting that the court invalidate 613. A hearing took place on May 16, 2016, and a decision is still pending. On March 28, 2017, Rhodia Operations and DKKK refiled the case before the Zibo Intermediate People's Court. Rhodia Operations and DKKK are seeking an injunction, damages of RMB15 million (approximately $2.3 million) and legal costs. Two preliminary hearings were held in 2017, and further substantive hearings are pending.

European Patent #0735984 B1 Litigation

On July 31, 2014, Rhodia Chimie S.A.S ("**Rhodia Chimie**") and Rhodia Operations (collectively, "**Rhodia**") initiated an action before the Regional Court of Düsseldorf, Germany i.a. against Molycorp C&O Europe (now, Neo C&O Europe), alleging infringement of European patent #0735984 B1 pertaining to rare earth mixed oxides for use in automotive catalysts ("**984**"). 984 expired on December 20, 2014. The Regional Court of Düsseldorf found that 984 had been infringed and ordered that Rhodia could seek to have Neo C&O Europe render account and to recall infringing products from the distribution chain. It also determined that Neo C&O Europe is obliged to pay damages. Rhodia has declared that until there is a final decision of the German Federal Supreme Court on the validity of 984, it will only enforce the patent in the limited scope as upheld by the German Federal Patent Court in first instance. Should Rhodia enforce a recall of infringing products, Neo does not believe it would have a material adverse impact on Neo. On June 13, 2017 Rhodia asked Neo C&O Europe. for a damages payment of EUR 5.2 million (approximately $6.1 million). No further steps have yet been taken in this regard and the precise amount of damages has not been judicially determined, for which separate legal proceedings could be initiated. Neo C&O Europe appealed the first instance decision of the Regional Court of Düsseldorf to the Higher Regional Court of Düsseldorf, Germany on April 1, 2016. A hearing date has not yet been set and thus, no decision has been issued. On March 16, 2016, Molycorp C&O Europe (now Neo C&O Europe) initiated nullity proceedings before the German Federal Patent Court seeking to invalidate certain claims of the German part of 984. On October 11, 2016, the German Federal Patent Court maintained the German part of 984, but only in restricted form. On April 4, 2017, both Rhodia and Neo C&O Europe appealed the decision of the Federal Patent Court to the Federal Supreme Court. A hearing date has not been set and thus, no decision has yet been issued.

Chinese Patent #ZL 94194552.9 Litigation

On August 21, 2015, Rhodia Operations and DKKK initiated a patent infringement action in China against ZAMR before the Shandong Higher People's Court, alleging infringement of Chinese patent #ZL 94194552.9 pertaining to rare earth mixed oxides for use in automotive catalysts ("**552**"). Both 984 and 552 contain the same claims and both expired on December 20, 2014. On September 29, 2016, the Supreme People's Court ruled that the case should be sent to the Zibo Intermediate People's Court for adjudication. In response to the infringement action, on December 15, 2015, ZAMR initiated an action before the Chinese Patent Re-examination Board requesting that the Board invalidate 552. A hearing and a decision are still pending. On March 28, 2017, Rhodia Operations and DKKK refiled the case before the Zibo Intermediate People's Court, claiming damages of RMB5 million (approximately $0.8 million) and legal costs. Two preliminary hearings were held in 2017 and further substantive hearings are pending. In addition, in respect of an invalidation action filed by Tianjin Hysci Specialty Materials Co., Ltd., the Chinese Patent Re-examination Board issued a decision on March 23, 2016, finding that a portion of the claims of 552 were invalid. Rhodia Operations has appealed this decision before the Beijing IP Court and, to Neo's knowledge, the hearing is still pending.

European Patent #0863846 B1 Litigation

On July 31, 2014, Rhodia initiated an action in the Regional Court of Düsseldorf, Germany i.a. against Molycorp C&O Europe (now, Neo C&O Europe) alleging infringement of European patent #0863846 B1 pertaining to rare earth mixed oxides for use in automotive catalysts ("**846**"). 846 expired on June 28, 2016. On February 2, 2016 the court found that 846 had been infringed. However, the Court stayed the proceedings until there is a first instance decision of the German Federal Patent Court about the validity of 846. On March 3, 2017, the Regional Court of Düsseldorf confirmed that it holds 846 to be infringed and it did not order a further stay of the proceedings until a final decision on the validity of 846 by the German Federal Supreme Court on appeal. It thus ordered that Rhodia could seek to have Neo C&O Europe render account and to recall infringing products from the distribution chain. It also determined that Neo C&O Europe is obliged to pay damages. The precise amount of damages has not been judicially determined, for which separate legal proceedings could be initiated. Should Rhodia enforce a recall of infringing products, Neo does not believe it would have a material adverse impact on its results. On August 15, 2017, Neo C&O Europe appealed the first instance decision of the Regional Court of Düsseldorf to the Higher Regional Court of Düsseldorf. A date for an oral hearing has not yet been set and no decision has been rendered. On March 16, 2015, Molycorp C&O Europe (now, Neo C&O Europe) initiated nullity proceedings before the German Federal Patent Court requesting that the Court invalidate certain claims of the German part of 846. The German Federal Patent Court on October 25, 2016 maintained the German part of 984, but in restricted form. In April 2017, both Rhodia and Neo C&O Europe appealed the decision of the German Federal Patent Court to the German Federal Supreme Court. A hearing date has not been set and no decision has yet been issued.

Chinese Patent #ZL 96196505.3 Litigation

On August 21, 2015, Rhodia Operations and DKKK initiated a patent infringement action in China against ZAMR before the Shandong Higher People's Court, alleging infringement of Chinese patent #ZL 96196505.3 pertaining to rare earth mixed oxides for use in automotive catalysts ("**505**"). 505 expired on June 28, 2016. (Both 846 and 505 contain the same claims.) On September 29, 2016, following an application by ZAMR, the Supreme People's Court ruled that the case should be sent to the Zibo Intermediate People's Court for adjudication. The Chinese Patent Re-examination Board, on October 20, 2016, upheld the validity of certain claims of 505. On March 28, 2017, Rhodia Operations and DKKK refiled their infringement claim before Zibo Intermediate People's Court and claimed damages of RMB45 million (approximately $6.8 million) and legal costs.

Chinese Patent #ZL 97195463.1 Litigation

On August 21, 2015, Rhodia Operations and DKKK initiated a patent infringement action in China against ZAMR before the Shandong Higher People's Court, alleging infringement of Chinese patent #ZL 97195463.1 pertaining to rare earth mixed oxides for use in automotive catalysts ("**463**"). 463 expired on May 9, 2017. On September 29, 2016, following an application by ZAMR, the Supreme People's Court ruled that the case should be sent to the Zibo Intermediate People's Court for adjudication. In response to the infringement action, on December 15, 2015, ZAMR initiated an action before the Chinese Patent Re-examination Board requesting that it invalidate 463. A hearing took place on May 18, 2016, but a decision has not yet been rendered. On March 28, 2017, Rhodia Operations and DKKK refiled the case before the Zibo Intermediate People's Court and claimed damages of RMB5 million (approximately $0.8 million) and legal costs. Two preliminary hearings were held in 2017 and further substantive hearings are pending.

No action has been taken in Europe against Neo and its subsidiaries based on European patent #0906244 B1 pertaining to rare earth mixed oxides for use in automotive catalysts ("**244**"). 244 contains the same claimed subject matter as 463 and also expired on May 9, 2017.

European and UK Patents #1444036 B1 Litigation

On October 26, 2015, MEL initiated an action in the High Court of Justice of England and Wales, Chancery Division, Patents Court against Molycorp C&O Europe (now, Neo C&O Europe) and ZAMR, alleging infringement of European and United Kingdom patents #1444036 B1 pertaining to rare earth mixed oxides for use in automotive catalysts ("**036**"). Neo C&O Europe and ZAMR each filed a defence and counterclaim and are seeking to invalidate 036. In the action, MEL is seeking: (i) an injunction to restrain Neo C&O Europe and ZAMR from infringing 036; (ii) an order for delivery up or 'destruction upon oath' of all material in the possession, power, custody or control of Neo C&O Europe and ZAMR, the keeping, disposal or use of which would be a breach of the injunction; and (iii) an inquiry as to damages or account of profits for infringement of 036.

On February 15, 2018, Neo and 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 Neo agreed to withdraw its invalidity counterclaim.

European Patent #1435338 B1 UK Litigation

On April 13, 2016, Anan Kasei Co., Ltd. ("**AKC**") and Rhodia Operations initiated action in the High Court of Justice of England and Wales, Chancery Division, Patents Court against Molycorp C&O Europe (now, Neo C&O Europe) alleging infringement of European and United Kingdom patents #1435338 B1 pertaining to cerium oxides for use in automotive catalysts ("**338**"). Neo C&O Europe has filed a defence and counterclaim and is seeking to invalidate 338. In the action, the plaintiffs are seeking: (i) an injunction to restrain Neo C&O Europe from infringing 338; (ii) an order for delivery up or destruction of all products which would infringe 338; and (iii) an inquiry as to damages or account of profits for infringement of 338. The trial took place in January 2018, and no decision has been issued yet.

European Patent #1435338 B1 Germany Litigation

On September 15, 2016, Rhodia Operations initiated an action in the Regional Court of Mannheim against Neo C&O Europe and two of its employees, alleging infringement of 338. Neo C&O Europe has filed its defence, requesting the complaint be dismissed or at least that the proceedings are stayed until there is a final decision on the validity of 338. In its complaint, Rhodia Operations is seeking that the defendants cease and desist from offering, distributing using or importing or possessing products that infringe certain claims of 338 and to render account. Also, Rhodia Operations has called for the destruction of infringing products that are in New C&O Europe's possession and that Neo C&O Europe recalls infringing products from the distribution chain. Furthermore, Rhodia Operations has asked the court to determine that the defendants pay damages. The trial took place on November 21, 2017. On December 19, 2017, the Regional Court of Mannheim ruled that Neo C&O Europe had infringed 338 in Germany and ordered that Rhodia could seek to have Neo C&O Europe render account and to recall infringing products from the distribution chain. The court also determined that Neo C&O Europe is obliged to pay damages, and it issued an injunction prohibiting future acts of infringement, including but not limited to the sale or distribution of products infringing 338 in Germany. Neo has appealed this ruling.

On June 21, 2016, Neo C&O Europe initiated nullity proceedings before the German Federal Patent Court, asking for the revocation of 338. A hearing is scheduled for January 15, 2019.

European Patent #1435338 B1 Netherlands Seizure Proceedings

Following an *ex parte* application brought without notice by Rhodia Operations on January 17, 2017, the District Court of Amsterdam allowed an evidentiary seizure against Neo C&O Europe, Molycorp Minerals (now, Neo ULC), ZAMR and Neele-Vat, based on alleged infringement of 338 and potential tort liability. The parties have since reached an agreement concerning the disclosure of the seized material and the use thereof by Rhodia Operations in infringement proceedings.

European Patent #0605274 B1 Litigation

On July 31, 2014, Rhodia initiated action in the Regional Court of Dusseldorf against Molycorp C&O Europe (now, Neo C&O Europe) alleging infringement of European patent #0605274 B1 pertaining to rare earth mixed oxides for use in automotive catalysts ("**274**"). 274 expired on December 15, 2013. On March 3, 2016, the Court found that 274 had been infringed, and ordered that Rhodia could seek to have Neo C&O Europe render account, to recall infringing products from the distribution chain and determined that Neo C&O Europe is obliged to pay damages. The precise amount of damages has not been judicially determined. Should Rhodia enforce a recall of infringing products, Neo does not believe it would have a material impact on its results. On April 1, 2016, Neo C&O Europe filed an appeal with the Higher Regional Court of Düsseldorf. Following the revocation of 274 by the German Federal Patent Court, Neo C&O Europe requested the Higher Regional Court of Düsseldorf to order that enforcement by Rhodia of the lower court judgement be stayed. On October 4, 2016, the Higher Regional Court of Düsseldorf met this request. Also, the appeal proceedings have been stayed by the Higher Regional Court of Düsseldorf with the consent of both parties, pending a final decision on the patent invalidation proceeding of 274 by the German Federal Court of Justice. On March 16, 2015, Molycorp C&O Europe (now, Neo C&O Europe) commenced nullity proceedings in the German Federal Patent Court to invalidate certain claims of the German part of 274. On September 27, 2016, the German Federal Patent Court invalidated those claims. On March 21, 2017, Rhodia Chimie appealed the decision of the Federal Patent Court to the German Federal Supreme Court. Neo C&O Europe replied on September 25, 2017. A hearing date has not yet been set and a decision has not yet been found.

European Patent #2007682 Litigation

On February 6, 2017, Neo C&O Europe initiated opposition proceedings before the European Patent Office requesting it revoke European patent #2007682 granted to Rhodia Operations pertaining to rare earth mixed oxides for use in automotive catalysts ("**682**") on the basis of its invalidity. A hearing date has not yet been set and thus, no decision has been issued.

European Patent #0955267 Litigation

On December 20, 2016 Rhodia Operations and DKKK without notice applied for an *ex parte* evidentiary seizure in the District Court of Amsterdam against Neo C&O Europe, Molycorp Minerals (now, Neo ULC), ZAMR and Neele-Vat, based on alleged infringement of the patents pertaining to 267, 018 and 620. The District Court of Amsterdam granted the request on an *ex parte* basis on January 17, 2017 and allowed an evidentiary seizure for use in infringement proceedings in Europe of these patents and determining potential tort liability. The parties have reached an agreement concerning the disclosure of the seized material and the use thereof by Rhodia Operations in infringement proceedings.

On June 8, 2017, Rhodia Operations sought to include 267 in the infringement proceedings regarding 846 before the Regional Court of Düsseldorf. In the oral hearing regarding infringement of 846, the Regional Court of Düsseldorf decided to separate the infringement proceedings regarding 267. A hearing on Rhodia Operations' claim of infringement of 267 has been scheduled for October 25, 2018. Neo C&O Europe filed nullity proceedings against the German part of 267 on December 18, 2017. 267 expired on December 24, 2017.

European Patent #1603667 Litigation

On April 13, 2017, Neo C&O Europe initiated opposition proceedings before the European Patent Office requesting it revoke European patent #1603667 granted to Rhodia Operations pertaining to rare earth mixed oxides for use in automotive catalysts ("**667**") on the basis of its invalidity. A hearing date has been set for November 29, 2018, and thus, no decision has been issued.

Regulatory Actions

There have been no penalties or sanctions imposed against Neo by a court relating to provincial and territorial securities legislation or by a securities regulatory authority since incorporation.

21. Additional Information

Additional information is included in Neo's Annual Information Form ("**AIF**") available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com.