

Cabot Specialty Fluids Business

Combined Financial Statements as of September 30, 2018 and 2017
and for the three years ended September 30, 2018 and Independent Auditors' Report

CABOT SPECIALTY FLUIDS BUSINESS

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
COMBINED FINANCIAL STATEMENTS:	
Balance Sheets as of September 30, 2018 and 2017	3
Statements of Operations for the Fiscal Years Ended September 30, 2018, 2017 and 2016	4
Statements of Comprehensive Income for the Fiscal Years Ended September 30, 2018, 2017 and 2016	5
Statements of Cash Flows for the Fiscal Years Ended September 30, 2018, 2017 and 2016	6
Statements of Changes in Parent Company Equity for the Fiscal Years Ended September 30, 2018, 2017 and 2016	7
Notes to Combined Financial Statements	8-22

Independent Auditor's Report

To the Board of Directors of
Cabot Corporation
Boston, MA

We have audited the accompanying combined financial statements of the Cabot Specialty Fluids Business (the "Business"), which comprise the combined balance sheets as of September 30, 2018 and 2017, and the related combined statements of operations, comprehensive income, cash flows, and changes in parent company equity for each of the three years in the period ended September 30, 2018 and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Business' preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Business' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Business as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The Business is wholly-owned by Cabot Corporation (“Parent”). As described in Note 2, the combined financial statements include certain allocations from Parent. Accordingly, the combined financial information herein may not necessarily reflect the combined financial position, results of operations, and cash flows of the Business had the Business been an independent Business during the periods presented.

This report is intended solely for the information and use of the Boards of Directors and managements of Cabot Corporation and parties who have signed the “Prospective Buyer Supplement” and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

November 20, 2018

CABOT SPECIALTY FLUIDS BUSINESS
Combined Balance Sheets
As of September 30, 2018 and 2017
(Dollars in thousands)

	September 30	
	2018	2017
Current assets:		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable - external, net of reserve for doubtful accounts of \$261 and \$9	24,699	9,928
Accounts receivable - related parties	1,995	1,323
Inventories	4,522	5,084
Prepaid expenses and other current assets	5,396	561
Total current assets	<u>36,612</u>	<u>16,896</u>
Property, plant and equipment	99,195	86,842
Accumulated depreciation	<u>(73,993)</u>	<u>(71,779)</u>
Net property, plant and equipment	<u>25,202</u>	<u>15,063</u>
Assets held for rent	118,121	109,662
Notes receivable - related parties	72,342	83,945
Other assets	9	54
Total assets	<u>\$ 252,286</u>	<u>\$ 225,620</u>
Current liabilities:		
Accounts payable and accrued liabilities - external	\$ 6,801	\$ 7,717
Accounts payable - related parties	125	381
Income taxes payable	<u>2,031</u>	<u>7</u>
Total current liabilities	<u>8,957</u>	<u>8,105</u>
Notes payable - related parties	23,313	9,454
Deferred income taxes	2,143	2,330
Other liabilities	7,060	7,800
Commitments and contingencies (Note 11)		
Total liabilities	<u>\$ 41,473</u>	<u>\$ 27,689</u>
Parent company equity:		
Parent equity	\$ 207,401	\$ 194,914
Accumulated other comprehensive income	<u>3,412</u>	<u>3,017</u>
Total parent company equity	<u>210,813</u>	<u>197,931</u>
Total liabilities and parent equity	<u>\$ 252,286</u>	<u>\$ 225,620</u>

The accompanying notes are an integral part of these combined financial statements.

CABOT SPECIALTY FLUIDS BUSINESS
Combined Statements of Operations
For the fiscal years ended September 30, 2018, 2017 and 2016
(Dollars in thousands)

	Years Ended September 30		
	2018	2017	2016
Net operating revenues	\$ 45,582	\$ 40,925	\$ 47,352
Cost of sales	23,776	20,196	22,389
Gross profit	21,806	20,729	24,963
Selling and administrative expenses	13,662	11,559	10,702
Research and technical expenses	1,377	1,383	1,623
Restructuring expense	—	7	1,148
Income from operations	6,767	7,780	11,490
Interest income - external (net)	279	18	3
Interest income - related party (net)	1,231	896	589
Other (expense) income	(34)	(290)	406
Income from operations before income taxes	8,243	8,404	12,488
Income tax expense	(3,952)	(2,723)	(1,601)
Net income	\$ 4,291	\$ 5,681	\$ 10,887

The accompanying notes are an integral part of these combined financial statements.

CABOT SPECIALTY FLUIDS BUSINESS
Combined Statements of Comprehensive Income
For the fiscal years ended September 30, 2018, 2017 and 2016
(Dollars in thousands)

	Years Ended September 30		
	2018	2017	2016
Net income	\$ 4,291	\$ 5,681	\$ 10,887
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustment	(177)	242	334
Pension liability adjustments arising during the period, net of tax (provision) benefit of \$0, \$0, \$0	518	1,848	(1,774)
Amortization of net loss and prior service credit included in net periodic pension cost, net of tax (provision) benefit of \$0, \$0, \$0	54	218	84
Other comprehensive income (loss)	395	2,308	\$ (1,356)
Comprehensive income	<u>\$ 4,686</u>	<u>\$ 7,989</u>	<u>\$ 9,531</u>

The accompanying notes are an integral part of these combined financial statements.

CABOT SPECIALTY FLUIDS BUSINESS
Combined Statements of Cash Flows
For the fiscal years ended September 30, 2018, 2017 and 2016
(Dollars in thousands)

	Fiscal Years Ended September 30		
	2018	2017	2016
Cash Flows from Operating Activities:			
Net income	\$ 4,291	\$ 5,681	\$ 10,887
Adjustments to reconcile net income to cash provided by			
Depreciation	2,143	2,230	2,222
Deferred tax provision	(191)	554	(662)
Non-cash compensation	441	340	248
Other non-cash expense (income)	168	86	178
Changes in assets and liabilities:			
Accounts receivable - external	(14,888)	3,742	(9,576)
Accounts receivable - related parties	(681)	(540)	(476)
Inventories	636	40	(445)
Prepaid expenses and other current assets	(4,792)	(146)	448
Accounts payable and accrued liabilities	2,049	(1,688)	(3,833)
Accounts payable - related parties	(257)	52	3
Income taxes payable	2,023	4	3
Other liabilities	(71)	657	657
Cash (used in) provided by operating activities	<u>(9,129)</u>	<u>11,012</u>	<u>(346)</u>
Cash Flows from Investing Activities:			
Additions to property, plant and equipment	(19,765)	(2,090)	(740)
Change in assets held for rent	<u>(4,537)</u>	<u>(6,073)</u>	<u>(5,485)</u>
Cash used in investing activities	<u>(24,302)</u>	<u>(8,163)</u>	<u>(6,225)</u>
Cash Flows from Financing Activities:			
Notes receivable - related parties	11,814	(5,495)	7,878
Notes payable - related parties	13,866	(5,601)	(4,529)
Settlement of net transactions with parent	<u>7,755</u>	<u>7,942</u>	<u>3,259</u>
Cash provided by (used in) financing activities	<u>33,435</u>	<u>(3,154)</u>	<u>6,608</u>
Effects of exchange rate changes on cash	<u>(4)</u>	<u>305</u>	<u>(37)</u>
Increase (decrease) in cash and cash equivalents	<u>—</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents at beginning of year	<u>—</u>	<u>—</u>	<u>—</u>
Cash and cash equivalents at end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Income taxes paid	\$ 4,143	\$ 2,170	\$ 2,263
Interest paid	\$ 438	\$ 283	\$ 372
Capital expenditures included in Accounts payable and accrued liabilities	\$ 241	\$ 3,024	\$ 151

The accompanying notes are an integral part of these combined financial statements.

CABOT SPECIALTY FLUIDS BUSINESS
Combined Statements of Changes in Parent Company Equity
For the fiscal years ended September 30, 2018, 2017 and 2016
(Dollars in thousands)

	Parent Equity	Accumulated Other Comprehensive Income	Total
Balance at September 30, 2015	\$ 166,557	\$ 2,065	\$ 168,622
Net income	10,887	—	10,887
Total other comprehensive loss	—	(1,356)	(1,356)
Amortization of share-based compensation	248	—	248
Settlement of net transactions with parent	3,259	—	3,259
Balance at September 30, 2016	180,951	709	181,660
Net income	5,681	—	5,681
Total other comprehensive income	—	2,308	2,308
Amortization of share-based compensation	340	—	340
Settlement of net transactions with parent	7,942	—	7,942
Balance at September 30, 2017	194,914	3,017	197,931
Net income	4,291	—	4,291
Total other comprehensive income	—	395	395
Amortization of share-based compensation	441	—	441
Settlement of net transactions with parent	7,755	—	7,755
Balance at September 30, 2018	<u>\$ 207,401</u>	<u>\$ 3,412</u>	<u>\$ 210,813</u>

The accompanying notes are an integral part of these combined financial statements.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

The Specialty Fluids Business (“the Business” or “Specialty Fluids”) of Cabot Corporation (“Cabot” or “Parent”) produces and markets a range of cesium products that include cesium formate brines and other fine cesium chemicals.

Cesium formate brines are used as a drilling and completion fluid primarily in high pressure and high temperature oil and gas well construction. Cesium formate products are solids-free, high-density fluids that have a low viscosity, enabling safe and efficient well construction and workover operations. The fluid is resistant to high temperatures, minimizes damage to producing reservoirs and is readily biodegradable in accordance with the testing guidelines set by the Organization for Economic Cooperation and Development. In a majority of applications, cesium formate is blended with other formates or products.

Fine cesium chemicals are used across a wide range of industries and applications that include catalysts, doping agents and brazing fluxes. Fine cesium chemicals enable process performance benefits and yield improvements and help prevent or mitigate pollution in the applications they serve.

Sales of the Business’s cesium formate products are made to oil and gas operating companies directly by the Business’s employees and sales representatives and indirectly through oil field service companies. The Business generally rents cesium formate to customers for use in drilling operations on a short-term basis and on occasion makes direct sales to customers outside of the rental process. After completion of a job under the rental process, the customer returns the remaining fluid to the Business and it is reprocessed for use in subsequent well operations. Any fluid that is not returned to the Business is paid for by the customer. Sales of the Business’s fine cesium chemicals are made by the Business’s employees and through distributors and sales representatives.

In prior years, a large portion of the Business’s fluids has been used for drilling and completion of wells in the North Sea with a limited number of customers, where the Business has supplied cesium formate-based fluids for both reservoir drilling and completion activities on large gas and condensate field projects in the Norwegian Continental Shelf. In fiscal 2018, the Business expanded the use of its fluids to drilling operations outside of the North Sea, particularly in Asia/the Middle East.

The Business’s mine and cesium formate and fine cesium chemical manufacturing facility are located in Manitoba, Canada, and the Business has fluid blending and reclamation facilities in Aberdeen, Scotland and in Bergen, Norway. In addition, the Business warehouses fluid and fine cesium chemical products at various locations around the world to support existing and potential operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These combined financial statements are prepared on a stand-alone basis and are derived from the consolidated financial statements and accounting records of Cabot. The preparation of these combined financial statements in conformity with GAAP requires management to make use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results may differ from those estimates.

All interbusiness balances and transactions between the entities within the Business have been eliminated.

Allocation of Shared Expenses — To the extent that an asset, liability, revenue or expense is directly associated with the Business, it is reflected in the accompanying combined financial statements. Cash and cash equivalents held by Cabot at the corporate level are not specifically allocated to the Business. Accordingly, cash and cash equivalents have not been allocated to the Business for any of the periods presented. Cabot's debt and the related interest expense have not been allocated to the Business for any of the periods presented since the Business is not the primary obligor of the debt, and Cabot's borrowings were not directly attributable to the Business.

The combined financial statements also include allocations of indirect expenses. Indirect expenses represent costs related to centralized corporate functions such as executive oversight, business development, information technology, accounting, legal and human resources that Cabot has incurred. Such indirect expenses have been allocated on a systemic basis, principally driven by headcount. The Combined Statements of Operations reflect the allocation of indirect expenses totaling \$5,548 thousand, \$5,031 thousand, and \$4,867 thousand for the years ended September 30, 2018, 2017, and 2016, respectively.

Actual costs which may have been incurred if the Business had been a stand-alone Business during the periods presented would depend on a number of factors, including how the Business chose to organize itself, which functions, if any, were outsourced or performed by Cabot employees and strategic decisions made in areas such as information technology systems and infrastructure. As such, the combined financial information herein may not necessarily reflect the combined financial position, results of operations and cash flows of the Business in the future or what it would have been had the Business been an independent business during the periods presented.

Notes Receivable – Related Parties and Notes Payable – Related Parties — Certain Specialty Fluids entities are lenders and/or borrowers in Cabot's intercompany notes receivable and notes payable program. The loans have market interest rates, terms that are customary for these types of loans and are payable on demand. Cabot and the Business have asserted that there is no intention to demand payment; accordingly, such amounts have been classified as long-term.

Inventories — Inventories represent fine cesium chemical products. Inventories are valued using the average cost method and are stated at lower of cost or market. The average cost of fine cesium chemicals inventory is recognized as cost of sales when products are sold.

Assets Held For Rent — Assets held for rent represent cesium formate product that is available to customers in the normal course of business. At September 30, 2018 and 2017 assets held for rent also included \$5,374 thousand and \$5,300 thousand, respectively, of cesium ore, a majority of which will be converted into cesium formate. Assets held for rent are stated at average cost and the average cost of barrels lost in the normal course of business are recognized in cost of sales. \$3,875 thousand of costs associated with mine development were capitalized into assets held for rent in fiscal 2018. No mine development costs were capitalized into assets held for rent in fiscal 2017.

Property, Plant and Equipment — Property, plant and equipment are recorded at cost. Depreciation of property, plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. The depreciable lives for buildings, machinery and equipment, and other fixed assets are between twenty and twenty-five years, ten and twenty-five years, and three and twenty-five years, respectively. The cost of mine development projects is included in machinery and equipment. Mine development projects are depreciated, and the depreciation is capitalized into assets held for rent over the estimated mining period of the cesium ore to which the project enabled access.

The cost and accumulated depreciation for property, plant and equipment sold, retired, or otherwise disposed of are removed from the Combined Balance Sheets and resulting gains or losses are included in Income from operations before income taxes in the Combined Statements of Operations.

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing plant and equipment, are capitalized and depreciated.

Asset Retirement Obligations — The Business estimates incremental costs for special handling, removal and disposal costs of materials that may or will give rise to asset retirement obligations (“AROs”) and then discounts the expected costs back to the current year using a credit adjusted risk free rate.

The estimation of AROs is subject to a number of inherent uncertainties including: (a) the timing of when any ARO may be incurred, (b) the ability to accurately identify and reasonably estimate the costs of all materials that may require special handling or treatment, (c) the ability to assess the relative probability of different scenarios which could give rise to an ARO, and (d) the other factors outside the Business’ control, including changes in regulations, costs and interest rates.

The Business recognizes ARO liabilities and costs when the timing and/or settlement can be reasonably estimated. The ARO liabilities were \$4,097 thousand and \$4,014 thousand at September 30, 2018 and 2017, respectively, and are included in Accrued liabilities and Other liabilities in the Combined Balance Sheets.

Accumulated Other Comprehensive Income (Loss) — Accumulated other comprehensive income (loss) (“AOCI”), which is included as a component of Parent company equity in the Combined Balance Sheets, primarily includes currency translation adjustments and minimum pension liability adjustments.

Foreign Currency Translation and Transactions — The U.S. dollar is the reporting currency and also the functional currency of the majority of the operations. Assets and liabilities of non-U.S. dollar subsidiaries in Canada and Singapore are translated into U.S. dollars at exchange rates in effect at the balance sheet dates. Income and expense items are translated at average monthly exchange rates during the year. Unrealized currency translation adjustments are included as a separate component of AOCI within Parent company equity.

Realized and unrealized foreign currency gains and losses arising from transactions denominated in currencies other than the subsidiary’s functional currency are reflected in earnings. In fiscal 2018, 2017 and 2016, net foreign currency transaction loss of \$27 thousand, loss of \$277 thousand, and gain of \$421 thousand, respectively, are included in Other expense in the Combined Statements of Operations.

Revenue Recognition — Revenue in Specialty Fluids arises primarily from the rental of cesium formate. This revenue is recognized throughout the rental period based on the contracted rental terms net of customer allowances and incentives. Customers are also billed, and revenue is recognized, typically at the end of the project, for cesium formate product that is not returned. The Business also generates revenues from cesium formate sold outside of a rental process and the sale of fine cesium chemicals. Product sale revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectability is reasonably assured.

Shipping and handling charges related to sales transactions are recorded as sales revenue when billed to customers or included in the sales price. Taxes collected on sales to customers are excluded from revenues.

Cost of Sales — Costs of sales consists of the cost of raw and packaging materials, direct manufacturing costs, depreciation, internal transfer costs, inspection costs, inbound and outbound freight and shipping and handling costs, plant purchasing and receiving costs, fluid reclamation costs and other overhead expenses necessary to produce products.

Accounts Receivable — Trade receivables are recorded at the invoiced amount and generally do not bear interest. The Business also maintains an allowance for doubtful accounts based on an assessment of the collectability of specific customer accounts, the aging of accounts receivable and other economic information on both a historical and prospective basis. Customer account balances are charged against the allowance when it is probable the receivable will not be recovered.

Stock-Based Compensation — Stock-based awards (related to shares of Cabot stock) granted to employees of the Business are recorded as compensation expense using the fair value method. Under the fair value recognition provisions, stock-based compensation cost is measured at the grant date based on the fair value of the award, and is recognized as expense over the service period, which generally represents the vesting period, and includes an estimate of the awards that will be forfeited, and an estimate of what level of performance Cabot will achieve for performance-based stock awards. The fair value of restricted stock units is determined using the closing price of Cabot stock on the day of the grant. Stock-based compensation expense, net of tax benefit, included in the Business' Combined Statements of Operations were \$328 thousand, \$221 thousand and \$161 thousand in the years ended September 30, 2018, 2017 and 2016, respectively.

Income Taxes — Income taxes are computed on a separate return basis. Accordingly, income tax charges or benefits have been computed as if each of the component entities of the Business filed separate income tax returns.

Deferred income taxes are determined based on the estimated future tax effects of differences between financial statement carrying amounts and the tax bases of existing assets and liabilities. Deferred tax assets are recognized to the extent that realization of those assets is considered to be more likely than not. A valuation allowance is established for deferred taxes when it is more likely than not that all or a portion of the deferred tax assets will not be realized.

The Business records benefits for uncertain tax positions based on an assessment of whether the position is more likely than not to be sustained by the taxing authorities. If this threshold is not met, no tax benefit of the uncertain tax position is recognized. If the threshold is met, the tax benefit that is recognized is the largest amount that is greater than 50% likely of being realized upon ultimate settlement. This analysis presumes the taxing authorities' full knowledge of the positions taken and all relevant facts but does not consider the time value of money. The Business also accrues for interest and penalties, as applicable, on its uncertain tax positions and includes such charges in its income tax provision in the Combined Statements of Operations.

Selling and Administrative Expenses — Selling and administrative expenses consist of personnel costs of sales and administrative personnel, general office expenses and other expenses not directly related to manufacturing operations.

Research and Technical Expenses — Research and technical expenses include personnel costs, equipment and material expenditures, and consultant fees of the research and technical function.

Use of Estimates — The preparation of combined financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the combined financial

statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

3. RELATED PARTY TRANSACTIONS

Notes Receivable – Related Parties and Long-Term Debt - Related Parties

The balances are reflected in the Combined Balance Sheets were as follows:

	September 30	
	2018	2017
	(in thousands)	
Notes receivable - related parties	\$ 72,342	\$ 83,945
Notes payable - related parties	(23,313)	(9,454)
Total net receivable	<u>\$ 49,029</u>	<u>\$ 74,491</u>

Related party interest income related to these arrangements was \$1,796 thousand, \$1,202 thousand and \$957 thousand in fiscal 2018, 2017, and 2016, respectively. Related party interest expense related to these arrangements was \$565 thousand, \$306 thousand and \$368 thousand in fiscal 2018, 2017, and 2016, respectively. Interest receivable on Notes receivable – related parties is included in Accounts receivable – related parties and Interest payable on Notes payable – related parties is included in Accounts payable – related parties in the Combined Balance Sheets.

Other — The Business has historically entered into transactions with Cabot entities outside the scope of the arrangements described above. These transactions are reflected within Accounts receivable - related parties and Accounts payable - related parties in the Combined Balance Sheets. Amounts owing under these arrangements are non-interest bearing and settle in the normal course of business.

4. INVENTORIES

Inventories were as follows:

	2018	2017
	(in thousands)	
Work in process	\$ 2,103	\$ 1,389
Finished goods	1,799	3,024
Other	620	671
Total	<u>\$ 4,522</u>	<u>\$ 5,084</u>

The Business periodically reviews inventory for potential excess, obsolete, and slow-moving inventory. In this review, the Business makes assumptions about future demand for and market value of the inventory and, based on these assumptions, estimates the amount of obsolete, unmarketable or slow-moving inventory. The Business had no inventory reserves as of September 30, 2018 and September 30, 2017.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at cost and accumulated depreciation were as follows:

	September 30	
	2018	2017
	(in thousands)	
Buildings	\$ 5,657	\$ 5,944
Machinery and equipment	83,720	67,160
Other	9,023	9,281
Construction in progress	795	4,457
Total property, plant and equipment	99,195	86,842
Less: accumulated depreciation	(73,993)	(71,779)
Net property, plant and equipment	\$ 25,202	\$ 15,063

Depreciation expense was \$2,143 thousand, \$2,230 thousand and \$2,222 thousand for fiscal 2018, 2017 and 2016, respectively.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES – EXTERNAL AND OTHER LIABILITIES

Accounts payable and accrued liabilities – external included in current liabilities consisted of the following:

	September 30	
	2018	2017
	(in thousands)	
Accounts payable	\$ 2,103	\$ 1,892
Accrued compensation	1,678	1,509
Accrued non-income taxes	—	468
Asset retirement obligations - short term	50	50
Other accrued liabilities	2,970	3,798
Total	\$ 6,801	\$ 7,717

Other accrued liabilities consisted of accrued liabilities related to capital projects and other items.

Other liabilities consisted of the following:

	September 30	
	2018	2017
	(in thousands)	
Employee benefit plan liabilities	\$ 3,013	\$ 3,836
Asset retirement obligations	4,047	3,964
Total	<u>\$ 7,060</u>	<u>\$ 7,800</u>

The following table provides information on the Business' asset retirement obligations included in Accounts payable and accrued liabilities and Other liabilities:

	September 30	
	2018	2017
	(in thousands)	
Asset retirement obligation balance beginning of year	\$ 4,014	\$ 3,812
Accretion Expense	44	39
Revision to estimated cash flows	39	163
Asset retirement obligation balance end of the year	<u>\$ 4,097</u>	<u>\$ 4,014</u>

7. EMPLOYEE BENEFIT PLANS

Cabot provides defined benefit plans for its employees, including certain employees in the Business. The eligible employees of the Business are participants in either the U.S. plan that covers substantially all of Cabot's U.S. employees or a foreign plan that covers all of the Business' employees in Canada. The U.S. defined benefit pension plan is frozen. Cabot also provides a postretirement benefit plan for certain U.S. employees, including those employed by the Business, which includes medical coverage and life insurance. The Business's participation in the U.S. defined benefit pension plan and postretirement benefit plan is deemed not material to the Combined Financial Statements of the Business and accordingly, the following information is presented based on the Business' participation in the Canadian plan only.

Defined Benefit Plan

Defined benefit plan provides pre-determined benefits to employees that are distributed upon retirement. The business is making all sponsor required contributions to these plans. The Business' accumulated benefit obligation in the Canadian plan was \$9,088 thousand and \$9,254 thousand as of September 30, 2018 and 2017, respectively.

The following provides information about the projected benefit obligations, plan assets, the funded status and weighted average assumptions of the Business' Canadian defined benefit pension plan:

	Years Ended September 30	
	2018	2017
Change in Benefit Obligations:		
Benefit obligation at beginning of year	\$ 11,995	\$ 12,466
Service cost	798	1,009
Interest cost	350	379
Plan participant's contribution	109	94
Foreign currency exchange rate changes	(577)	661
(Gain) Loss from changes in actuarial assumptions and plan experience	(414)	(1,908)
Benefits paid	(452)	(706)
Benefit obligation at end of year	\$ 11,809	\$ 11,995
Change in Plan Assets:		
Fair value of plan assets at beginning of year	\$ 8,159	\$ 7,449
Actual return on plan assets	573	402
Employer contribution	808	533
Plan participants' contribution	109	94
Foreign currency exchange rate changes	(401)	387
Benefits paid	(452)	(706)
Settlements		
Expenses paid from assets		
Fair value of plan assets at end of year	\$ 8,796	\$ 8,159
Funded status	\$ (3,013)	\$ (3,836)
Recognized liability	\$ (3,013)	\$ (3,836)

Amounts recognized in the Combined Balance Sheets related to the Business' Canadian defined benefit pension plan were \$3,013 thousand and \$3,836 thousand as of September 30, 2018 and 2017, respectively, and were included in Other liabilities.

The following assumptions were used to determine the Canadian pension benefit obligations and periodic benefit costs as of and for the years ended September 30:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Actuarial assumptions as of the year-end measurement date:			
Discount rate	3.4%	3.4%	3.2%
Rate of increase in compensation	3.0%	3.0%	3.0%
Actuarial assumptions used to determine net periodic benefit cost during the year:			
Discount rate - benefit obligation	3.4%	3.2%	4.0%
Discount rate - service cost	3.5%	3.3%	4.1%
Discount rate - interest cost	3.1%	3.1%	3.9%
Expected long-term rate of return on plan assets	5.8%	5.8%	5.8%
Rate of increase in compensation	3.0%	3.0%	3.0%

The Business used discount rates as of September 30, the Canadian plan's measurement date, to determine future benefit obligations under this defined benefit plan. The discount rates for the Canadian defined benefit plan are derived from yield curves that reflect high quality corporate bond yield or swap rate information in each region and reflect the characteristics of the Business' Canadian employee benefit plans. The rates utilized are selected because they represent long-term, high quality, fixed income benchmarks that approximate the long-term nature of the Business' Canadian pension obligations and related payouts.

Net periodic defined benefit pension benefit costs of the Canadian plan included the following components:

	<u>Years Ended September 30</u>		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
	(in thousands)		
Service cost	\$ 798	\$ 1,009	\$ 796
Interest cost	350	379	377
Expected return on plan assets	(467)	(442)	(418)
Amortization of prior service cost	19	18	19
Amortization of actuarial losses	35	200	65
Settlements or Curtailments cost	—	—	383
Net periodic cost	<u>\$ 735</u>	<u>\$ 1,164</u>	<u>\$ 1,222</u>

Estimated Future Payments

The Business expects that the following benefit payments will be made to plan participants in the years from 2019 to 2028:

<u>Years Ending September 30</u>	<u>Pension Benefits</u>
2019	\$ 640
2020	\$ 478
2021	\$ 648
2022	\$ 1,178
2023	\$ 461
2024-2028	\$ 5,532

Plan Assets

The investment strategy for the Canadian defined benefit is generally based on a set of investment objectives and policies that cover time horizons and risk tolerance levels consistent with plan liabilities. As of September 30, 2018, the plan assets were invested in fund which invests in approximately 50% equity, 40% fixed income and 10% real estate, which approximates the plan's target asset allocation. The investments are classified as Level 2 investments. For Level 2 investments, where the security is frequently traded in less active markets, fair value is based on the closing price at the end of the period; or where the security is less frequently traded, fair value is based on the price a dealer would pay for the security or similar securities, adjusted for any terms specific to that asset or liability.

Defined Contribution Plan

In addition to the benefits provided under the defined benefit plans described above, the Business provides benefits under defined contribution plan in the U.S. and United Kingdom ("U.K."). The Business's participation in the U.S. defined contribution plan is deemed not material to the Combined Financial Statements of the Business. The Business recognized expenses related to the U.K. defined contribution plan of \$196 thousand in fiscal 2018, \$217 thousand in fiscal 2017 and \$207 thousand in fiscal 2016.

8. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in each component of AOCI, were as follows for fiscal 2017 and 2018:

	<u>Currency Translation Adjustment</u>	<u>Pension Liability Adjustment, net of tax (in thousands)</u>	<u>Total</u>
Balance at September 30, 2016	\$ 4,921	\$ (4,212)	\$ 709
Other comprehensive income (loss)	242	2,066	2,308
Balance at September 30, 2017	\$ 5,163	\$ (2,146)	\$ 3,017
Other comprehensive income (loss)	(177)	572	395
Balance at September 30, 2018	<u>\$ 4,986</u>	<u>\$ (1,574)</u>	<u>\$ 3,412</u>

The amounts reclassified out of AOCI and into the Combined Statements of Operations for the fiscal years ended September 30, 2018, 2017 and 2016 were as follows:

	September 30		
	2018	2017	2016
	(in thousands)		
Pension liability adjustment			
Amortization of actuarial losses	\$ 19	\$ 18	\$ 19
Amortization of prior service (credit) cost	35	200	65
Settlement and curtailment cost	—	—	383
Total	<u>\$ 54</u>	<u>\$ 218</u>	<u>\$ 467</u>

9. INCOME TAXES

Income from operations before income taxes and equity in earnings of affiliated companies was as follows:

	Years ended September 30,		
	2018	2017	2016
	(in thousands)		
Domestic	\$ 6,553	\$ 2,845	\$ 3,163
Foreign	1,690	5,559	9,325
Total	<u>\$ 8,243</u>	<u>\$ 8,404</u>	<u>\$ 12,488</u>

The provision (benefit) for taxes on income (loss) consisted of the following:

	Years ended September 30,		
	2018	2017	2016
	(in thousands)		
Continuing Operations:			
U.S. federal and state:			
Current	\$ 1,655	\$ 1,046	\$ 1,199
Deferred	103	(114)	\$ (87)
Total	<u>\$ 1,758</u>	<u>\$ 932</u>	<u>\$ 1,112</u>
Foreign:			
Current	\$ 2,488	\$ 1,123	\$ 1,064
Deferred	(294)	668	(575)
Total	<u>\$ 2,194</u>	<u>\$ 1,791</u>	<u>\$ 489</u>
Total U.S. and foreign	<u>\$ 3,952</u>	<u>\$ 2,723</u>	<u>\$ 1,601</u>

The provision (benefit) for income taxes differed from the U.S. statutory rate as follows:

	Years ended September 30,		
	2018	2017	2016
	(in thousands)		
Continuing Operations:			
Computed tax expense at the U.S. statutory rate	\$ 2,022	\$ 2,941	\$ 4,370
Foreign income:			
Impact of taxation at different rates	42	(1,069)	(2,233)
Impact of non-creditable foreign withholding taxes	2,162	935	51
Change in valuation allowance	(242)	301	432
Impact of non-deductible foreign currency	(10)	(50)	12
Impact of state taxes	(90)	105	(658)
Other, net	68	(440)	(373)
Total Continuing Operations	<u>\$ 3,952</u>	<u>\$ 2,723</u>	<u>\$ 1,601</u>

Significant components of deferred income taxes were as follows:

	September 30,	
	2018	2017
	(in thousands)	
Deferred tax assets:		
Pension and other benefits	\$ 1,159	\$ 1,331
Deferred expenses	704	629
Other	646	682
Property Plant and Equipment	4,384	3,512
Net operating loss	417	423
Other tax carryforwards	9,895	9,928
Subtotal	17,205	16,505
Valuation Allowance	(15,498)	(16,216)
Total deferred tax assets	<u>\$ 1,707</u>	<u>\$ 289</u>
Deferred tax liabilities:		
Inventory	\$ (3,850)	\$ (2,619)
Total deferred tax liabilities	<u>\$ (3,850)</u>	<u>\$ (2,619)</u>
Total deferred income taxes	<u>\$ (2,143)</u>	<u>\$ (2,330)</u>

Approximately \$1,559 thousand of net operating loss carryforwards (“NOLs”) and \$9,895 thousand of other tax credit carryforwards remain as of September 30, 2018. The benefits of these carryforwards are dependent upon taxable income during the carryforward period in the jurisdictions in which they arose. Accordingly, a valuation allowance has been provided where management has determined that it is more likely than not that the carryforwards will not be utilized. The following table provides details surrounding the expiration of these carryforwards:

	NOLs	Credits
	(in thousands)	
Expiration Periods		
2019 to 2025	\$ -	\$ 677
2026 and thereafter	1,517	-
Indefinite carryforwards	42	9,218
Total	<u>\$ 1,559</u>	<u>\$ 9,895</u>

The valuation allowances at September 30, 2017 and 2016 represent management's best estimate of the non-realizable portion of the deferred tax assets. The valuation allowance decreased by \$718 thousand in fiscal 2018, primarily due to net decreases in certain deferred tax assets. The valuation allowance increased by \$242 thousand in fiscal 2017, primarily due to net increases in certain deferred tax assets.

The Business files U.S. federal and state and non-U.S. income tax returns in jurisdictions with varying statutes of limitations. The 2015 through 2017 tax years generally remain subject to examination by the IRS and various tax years from 2005 through 2015 remain subject to examination by the respective state tax authorities. In significant non-U.S. jurisdictions, various tax years from 2013 through 2017 remain subject to examination by their respective tax authorities. As of September 30, 2018, the Business' significant non-U.S. jurisdictions include Canada, U.K. and Norway.

10. RESTRUCTURING ACTIVITIES

In fiscal 2016, in response to challenging macroeconomic conditions, Cabot restructured its global operations. For the Business, this resulted in the closure of its location in Kristiansund, Norway and reduction of its workforce at the Manitoba, Canada and Bergen, Norway facilities. A portion of the reserve for the 2016 restructuring was accrued at the end of fiscal 2015.

Details of the Business' restructuring activities and the related reserves for fiscal 2016, 2017 and 2018 were as follows:

	Severance and Employee Benefits (in thousands)
Reserve at September 30, 2015	\$ 1,656
Charges	1,148
Costs charged against assets	(889)
Cash paid	(1,850)
Foreign currency translation adjustment	(29)
Reserve at September 30, 2016	36
Charges	7
Costs charged against assets	—
Cash paid	(43)
Reserve at September 30, 2017	—
Charges	—
Costs charged against assets	—
Cash (paid) received	—
Reserve at September 30, 2018	\$ —

11. COMMITMENTS AND CONTINGENCIES

Operating Lease Commitments — The Business leases certain transportation vehicles, warehouse facilities, office space and machinery and equipment under operating cancelable and non-cancelable leases, most of which expire in five years. Rent expense under such arrangements for fiscal 2018, 2017 and 2016 was \$2,252 thousand, \$2,199 thousand, and \$2,601 thousand, respectively. Future minimum rental commitments under non-cancelable leases are as follows:

Years Ended September 30	(in thousands)
2019	\$ 1,804
2020	264
2021	22
2022	16
2023	16
2024 and thereafter	164
Total future minimum rental commitments	\$ 2,286

Purchase Commitments — During fiscal 2018, the Business entered into an offtake agreement with Pioneer Resources Limited ("Pioneer") to purchase 100% of the cesium ore extracted from the Sinclair Zone Cesium Deposit in Australia, over a supply term of two years beginning from commencement of mining operations. Associated with this agreement, Specialty Fluids has provided Pioneer a \$5,000 thousand interest free loan to support mining development and operations at the Sinclair Mine. The loan

is included in current prepaid assets in the balance sheet as of September 30, 2018. Future payments to Pioneer related to this agreement are estimated at \$15,000 thousand in fiscal 2019.

Guarantee Agreements — The Business has provided certain indemnities pursuant to which it may be required to make payments to an indemnified party in connection with certain transactions and agreements. In connection with various other agreements, including service and supply agreements with customers, the Business has provided indemnities for certain contingencies and routine warranties. The Business is unable to estimate the maximum potential liability for these types of indemnities as a maximum obligation is not explicitly stated in most cases and the amounts, if any, are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be reasonably estimated. The duration of the indemnities varies, and in many cases are indefinite. The Business has not recorded any liability for these indemnities in the combined financial statements, except as otherwise disclosed.

12. CONCENTRATION OF CREDIT RISK

Credit risk represents the loss that would be recognized if counterparties failed to completely perform as contracted. Financial instruments that subject the Business to credit risk consist principally of trade receivables. Furthermore, concentrations of credit risk exist for groups of customers when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Credit risk for the Business for the years ended September 30, 2018, 2017 and 2016 was concentrated in the following customers who each comprised more than 10% of Net sales and other operating revenue in one or more years:

	September 30		
	2018	2017	2016
Customer 1	12%	10%	4%
Customer 2	0%	0%	22%
Customer 3	10%	11%	5%
Customer 4	6%	25%	26%
Customer 5	47%	27%	20%
Customer 6	0%	0%	10%
Total	75%	73%	87%

No additional customers accounted for more than 10% of Net sales and other operating revenue during the years ended September 30, 2018, 2017 and 2016.

The Business had one significant customer which accounted for 82% and 50% of Accounts receivable – external at September 30, 2018 and 2017, respectively. At September 30, 2018 and 2017, no additional customers accounted for more than 10% of Accounts receivable – external.

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