NEO PERFORMANCE MATERIALS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2018

NEO PERFORMANCE MATERIALS INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Unaudited - all figures in thousands of United States dollars)

	September 30, 2018	December 31, 2017
ASSETS		
Current		
Cash and cash equivalents	$ 69,336	$ 96,805
Restricted cash	1,695	1,529
Accounts receivable	53,932	46,766
Inventories (Note 6)	133,596	104,534
Income taxes receivable	494	661
Other current assets	24,237	13,955
Total current assets	**283,290**	**264,250**
Property, plant and equipment	85,407	88,392
Intangible assets	67,709	72,769
Goodwill	99,295	101,893
Investments (Note 7)	7,896	8,633
Deferred tax assets	1,595	1,406
Other non-current assets	687	1,150
Total non-current assets	**262,589**	**274,243**
Total assets	**$ 545,879**	**$ 538,493**
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt (Note 8)	$ 12	$ 181
Accounts payable and other accrued charges	63,541	72,250
Income taxes payable	7,591	6,319
Other current liabilities	2,147	2,704
Total current liabilities	**73,291**	**81,454**
Employee benefits	2,199	2,437
Derivative liability (Note 8)	8,555	9,842
Provisions	4,706	4,665
Deferred tax liabilities	18,569	20,206
Other non-current liabilities	994	642
Total non-current liabilities	**35,023**	**37,792**
Total liabilities	**108,314**	**119,246**
Non-controlling interest	4,742	5,831
Equity attributable to equity holders of Neo Performance Materials Inc.	432,823	413,416
Total equity	**437,565**	**419,247**
Total liabilities and equity	**$ 545,879**	**$ 538,493**

Commitments and contingencies (Note 11)

Subsequent events (Note 20)

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenue	$ 114,216	$ 116,421	$ 344,834	$ 324,717
Costs of sales				
Costs excluding depreciation and amortization	82,607	79,511	242,661	221,504
Depreciation and amortization	2,404	2,678	7,389	7,610
Gross profit	29,205	34,232	94,784	95,603
Expenses				
Selling, general and administrative	10,991	15,271	36,050	42,397
Stock-based compensation (Note 15)	1,478	860	3,658	5,841
Depreciation and amortization	1,658	2,435	5,262	5,831
Research and development	4,188	4,243	13,150	11,425
	18,315	22,809	58,120	65,494
Operating income	**10,890**	**11,423**	**36,664**	**30,109**
Other income (loss)	1,859	(284)	9,937	2,765
Finance income, net	128	155	1,594	180
Foreign exchange loss	(249)	(42)	(183)	(565)
Income from operations before income taxes and equity income (loss) of associates	12,628	11,252	48,012	32,489
Income tax expense (Note 14)	(3,975)	(2,587)	(10,517)	(6,654)
Income from operations before equity income (loss) of associates	8,653	8,665	37,495	25,835
Equity income (loss) of associates (net of income tax) (Note 7)	115	619	(737)	1,224
Net income	**$ 8,768**	**$ 9,284**	**$ 36,758**	**$ 27,059**
Attributable to:				
Equity holders of Neo Performance Materials Inc.	$ 8,669	$ 9,051	$ 36,510	$ 26,523
Non-controlling interest	99	233	248	536
	$ 8,768	**$ 9,284**	**$ 36,758**	**$ 27,059**
Earnings per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic (Note 13)	$ 0.22	$ 0.23	$ 0.92	$ 0.67
Diluted (Note 13)	$ 0.21	$ 0.22	$ 0.90	$ 0.66

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited - all figures in thousands of United States dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income for the period	$ 8,768	$ 9,284	$ 36,758	$ 27,059
Other comprehensive (loss) income:				
Item that is or may be reclassified subsequently to profit or loss:				
Currency translation adjustment	(6,125)	2,781	(9,019)	6,684
Other comprehensive (loss) income for the period	**(6,125)**	**2,781**	**(9,019)**	**6,684**
Total comprehensive income for the period	**$ 2,643**	**$ 12,065**	**$ 27,739**	**$ 33,743**
Attributable to:				
Non-controlling interest	$ 64	$ 255	$ 193	$ 578
Equity holders of Neo Performance Materials Inc.	2,579	11,810	27,546	33,165
	$ 2,643	$ 12,065	$ 27,739	$ 33,743

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited - all figures in thousands of United States dollars)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Operating activities		
Net income for the period	$ 36,758	$ 27,059
Add (deduct) items not affecting cash:		
Depreciation and amortization	12,651	13,441
Stock-based compensation	3,658	5,841
Acquired inventory fair value release (Note 6)	—	2,912
Change in pension liability	(238)	230
Finance income, net	(1,594)	(182)
Equity loss (income) of associates (Note 7)	737	(1,224)
Loss on disposal of property, plant and equipment	317	707
Insurance recovery included in other income	(11,770)	—
Income tax expense (Note 14)	10,517	6,654
Foreign exchange gain	(289)	(1,186)
Other	1,010	879
Net change in non-cash working capital balances related to operations (Note 10)	(55,170)	2,749
Income taxes paid	(9,950)	(10,708)
Interest received, net of interest paid	307	212
Cash (used in) provided by operating activities	**$ (13,056)**	**$ 47,384**
Investing activities		
Additions of property, plant and equipment	(8,116)	(7,447)
Additions of intangible assets	(635)	(25)
Dividends received from associates	—	9
Recovery from insurance claims	7,865	—
Increase in restricted cash	(190)	—
Cash used in investing activities	**$ (1,076)**	**$ (7,463)**
Financing activities		
Repayment of bank advances and other short-term debt	(159)	(7,946)
Dividends paid to non-controlling interest	(193)	(245)
Dividends paid	(8,859)	—
Repurchase of common shares	(1,885)	—
Other financing activities	(501)	—
Cash used in financing activities	**$ (11,597)**	**$ (8,191)**
Effect of exchange rate changes on cash and cash equivalents	(1,740)	1,926
Cash (used) provided during the period	**(27,469)**	**33,656**
Cash and cash equivalents, beginning of period	96,805	79,408
Cash and cash equivalents, end of period	**$ 69,336**	**$ 113,064**

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited - all figures in thousands of United States dollars)

	Share Capital				Other Comprehensive Income (Loss)			Total		
	Common Stock Number	Common Stock Amount	Retained Earnings (Deficits)	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains (net of tax)	Accumulated Other Comprehensive Income (Loss)	Equity Attributable to Equity Holders of Neo Performance Materials Inc.	Non-Controlling Interest	Equity
Balance - January 1, 2018	**39,921,577**	**$ 40**	**$ (12,949)**	**$ 422,210**	**$ 3,515**	**$ 600**	**$ 4,115**	**$ 413,416**	**$ 5,831**	**$ 419,247**
Net earnings	—	—	36,510	—	—	—	—	36,510	248	36,758
Other comprehensive loss	—	—	—	—	(8,964)	—	(8,964)	(8,964)	(55)	(9,019)
Total comprehensive income	—	—	36,510	—	(8,964)	—	(8,964)	27,546	193	27,739
Stock-based compensation	—	—	—	3,106	—	—	—	3,106	—	3,106
Dividends paid to Neo shareholders	—	—	(8,859)	—	—	—	—	(8,859)	—	(8,859)
Distributions to non-controlling interest	—	—	—	—	—	—	—	—	(1,282)	(1,282)
Shares repurchased and canceled under Normal Course Issuer Bid	(146,869)	—	—	(1,885)	—	—	—	(1,885)	—	(1,885)
Issuance of common shares for Restricted Share Units exercised	49,985	—	—	(501)	—	—	—	(501)	—	(501)
	(96,884)	—	(8,859)	720	—	—	—	(8,139)	(1,282)	(9,421)
Balance - September 30, 2018	**39,824,693**	**$ 40**	**$ 14,702**	**$ 422,930**	**$ (5,449)**	**$ 600**	**$ (4,849)**	**$ 432,823**	**$ 4,742**	**$ 437,565**
Balance - January 1, 2017	**39,630,244**	**$ 40**	**$ (12,645)**	**$ 416,411**	**$ (6,410)**	**$ 440**	**$ (5,970)**	**$ 397,836**	**$ 6,260**	**$ 404,096**
Net earnings	—	—	26,523	—	—	—	—	26,523	536	27,059
Other comprehensive income	—	—	—	—	6,642	—	6,642	6,642	42	6,684
Total comprehensive income	—	—	26,523	—	6,642	—	6,642	33,165	578	33,743
Reissuance of common shares	140,244	—	—	—	—	—	—	—	—	—
Stock-based compensation	—	—	—	5,841	—	—	—	5,841	—	5,841
Distributions to non-controlling interest	—	—	—	—	—	—	—	—	(245)	(245)
	140,244	—	—	5,841	—	—	—	5,841	(245)	5,596
Balance - September 30, 2017	**39,770,488**	**$ 40**	**$ 13,878**	**$ 422,252**	**$ 232**	**$ 440**	**$ 672**	**$ 436,842**	**$ 6,593**	**$ 443,435**

See accompanying notes

NOTE 1 NATURE OF OPERATIONS

Neo Performance Materials Inc. ("**Neo**", the "**Company**" or the "**Group**") is a Canadian public company and was incorporated on September 12, 2017 under the *Business Corporations Act* (Ontario). OCM Neo Holdings (Cayman), L.P. ("**OCM**") formed Neo for the purpose of completing a Cayman Islands scheme of arrangement (the "**Arrangement**") with Neo Cayman Holdings Ltd. ("**Neo Cayman**") and a subsequent public offering of the common shares of Neo.

On August 31, 2016, pursuant to the terms of the Fourth Joint Amended Plan of Reorganization, certain subsidiaries of Molycorp Inc. emerged from bankruptcy (the "**Reorganization**") under the ownership of Neo Cayman.

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. Neo's acquisition 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-Arrangement period, including comparative periods, are presented based on the historical information of Neo Cayman.

Also on November 30, 2017, Neo completed an Initial Public Offering ("**IPO**") by way of a Secondary Offering on the Toronto Stock Exchange ("**TSX**"). Neo offered 11,115,000 common shares for total proceeds of Canadian dollar ("**Cdn**") $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 Cdn $19,800,000. All proceeds, net of underwriter commissions, were paid to the selling shareholder, Oaktree Capital Management L.P. ("**Oaktree**") and their affiliates. Oaktree continues to be the largest and majority shareholder of Neo.

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

Neo has established itself as a global leader in the innovation and manufacturing of rare earth and rare metal-based functional materials, which are essential inputs to high technology, high-growth, future-facing industries. Neo has approximately 1,817 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States ("**U.S.**"), Germany, Canada, Estonia, Thailand and South Korea as well as two dedicated R&D centres in Singapore and the United Kingdom ("**UK**"). Neo is the only non-Chinese company with a license to separate rare earth elements ("**REEs**") in China, which provides unique competitive advantages and a degree of vertical integration. Since 1994, Neo has leveraged its rare earth separation expertise to innovate and grow into a leading manufacturer of functional engineered materials for specialty end markets. This includes establishing the #1 global market position in bonded magnets, a top-three global market position in auto emission control catalysts, the #1 gallium tri-chloride ("**GaCl3**") producer for light-emitting diodes ("**LEDs**") and growth opportunities into new end markets such as waste-water treatment. Neo is organized along three business segments: Magnequench, Chemicals & Oxides ("**C&O**") and Rare Metals, as well as the Corporate segment.

Magnequench

The Magnequench segment, with over 30 years of manufacturing experience, is the world leader in the production of magnetic powders used in bonded and hot-deformed, fully dense neodymium-iron-boron ("**NdFeB**") magnets. These powders are formed through Magnequench's market-leading technology related to the development, processing and manufacturing of magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of rare earth oxides ("**REO**") as the primary input. These powders are used in the production of bonded permanent magnets that are components in automotive motors, micro motors, traction motors, sensors and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

C&O

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

Rare Metals

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

Corporate

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

NOTE 2 GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("**IAS**") 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board ("**IASB**"). These unaudited interim condensed consolidated financial statements do not include all of the disclosures required by International Financial Reporting Standards ("**IFRS**") issued by the IASB for annual financial statements and should be read in conjunction with Neo's audited annual financial statements and accompanying notes for the year ended December 31, 2017. The significant accounting policies disclosed in Note 4 of Neo's audited annual financial statements for the year ended December 31, 2017 have been applied consistently in the preparation of these unaudited interim condensed consolidated financial statements, with the exception of the accounting standards adopted in 2018.

The unaudited interim condensed consolidated financial statements were approved and authorized for issuance by Neo's Board of Directors on November 13, 2018.

NOTE 3 BASIS OF PREPARATION

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of these unaudited interim condensed consolidated financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgment in applying Neo's accounting policies.

Certain prior period amounts have been reclassified to conform to the current period presentation. Such reclassifications did not affect results of operations.

NOTE 4 CHANGES IN ACCOUNTING POLICIES

IFRS 9 - Financial instruments

Effective January 1, 2018, Neo has adopted IFRS 9 - Financial Instruments ("**IFRS 9**") and elected to not restate comparative information for prior periods. IFRS 9 supersedes IAS 39 - Financial Instruments: Recognition and Measurement ("**IAS 39**"). IFRS 9 provides a revised model for classification, measurement, impairment and derecognition of financial assets and liabilities, as well as general hedge accounting. IFRS 9 eliminates previous IAS 39 financial asset categories of held to maturity, available-for-sale and loans and receivable. IFRS 9 also requires a loss allowance for expected credit losses ("**ECL**") on a financial asset that is measured at amortized cost.

The following table summarized the classification impacts upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS 9 did not result in a change in the carrying value of any of Neo's financial instruments on the transition date.

Financial Assets	Classification under IAS 39	Classification under IFRS 9
Cash and cash equivalent	Fair value through profit or loss ("**FVPL**")	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Bank advances and other short-term debt	Other liabilities	Amortized cost
Accounts payable and other accrued charges.	Other liabilities	Amortized cost
Derivative liability	FVPL	FVPL

As a result of the adoption of IFRS 9, Neo's accounting policy for financial instruments has been updated as follows:

Financial instruments - classification and measurement

Financial assets are classified and measured based on these categories: FVPL; fair value through other comprehensive income ("**FVOCI**"); or amortized cost. Financial liabilities are classified and measured based on two categories: FVPL or amortized cost.

Financial assets and liabilities classified as FVPL are measured at fair value with changes in fair value recognized in the consolidated statements of profit or loss. Financial assets designated as FVOCI are measured at fair value with changes in fair value recognized in other comprehensive income with such changes are never being reclassified to profit or loss. Financial assets and liabilities classified as amortized cost are initially measured at fair value, net of any transaction costs incurred and are measured subsequently using the effective interest method.

IFRS 15 - Revenue from contracts with customers

Effective January 1, 2018, Neo has adopted IFRS 15 - Revenue from Contracts with Customers ("**IFRS 15**"). IFRS 15 supersedes IAS 18 - Revenue and related interpretations. IFRS 15 provides a five-step model to be applied to all contracts with customers, except insurance contracts, financial instruments and lease contracts, which fall in the scope of other IFRSs. In addition to the five-step model, the standard also includes expanded disclosure requirements for annual financial statements to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The majority of Neo's revenue stream comes from the sale of goods. Revenue from sales contracts with customers under the scope of IFRS 15 is recognized when a customer obtains control of the promised goods and Neo satisfies its performance obligation. Revenue is allocated to each performance obligation. Neo satisfies its performance obligations for its sales contracts based upon specified contract terms which are generally upon shipment or upon delivery.

Neo adopted IFRS 15 using the modified retrospective method, with recognition of transitional adjustments, if any, in retained earnings on the date of initial application on January 1, 2018, without restatement of comparative figures. The adoption of IFRS 15 did not result in significant changes in the accounting for revenue from contracts with customers and Neo has concluded that there was no significant impact on its unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2018 as a result of applying IFRS 15.

IFRIC 22 - Foreign currency transactions and advance consideration

Effective January 1, 2018, Neo has adopted IFRIC 22 - Foreign Currency Transactions and Advance Consideration ("**IFRIC 22**"). 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 the advance consideration. Neo has elected to adopt IFRIC 22 prospectively. The adoption of IFRIC 22 has had no significant impact on Neo's unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2018.

NOTE 5 RECENT ACCOUNTING PRONOUNCEMENTS

The following accounting pronouncements issued by the IASB were not effective for Neo as at September 30, 2018 and therefore have not been applied in preparing these unaudited condensed consolidated financial statements. Neo intends to adopt these standards, if applicable, when they become effective.

IFRS 16 - Leases

On January 13, 2016, the IASB issued IFRS 16 - Leases ("**IFRS 16**"). IFRS 16 supersedes IAS 17 - Leases, IFRIC 4 - Determining whether an Arrangement contains a Lease, SIC-15 - Operating Leases – Incentives and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remains largely in line with previous IAS 17 requirements. IFRS 16 has an effective date of January 1, 2019, with early application permitted only if IFRS 15 has also been adopted. Management plans to apply IFRS16 using a simplified transition approach and will not restate comparative amounts for the year prior to the effective date. Neo has not determined if the adoption of IFRS 16 will result in significant changes to its consolidated statement of income and consolidated statement of financial position.

IFRIC 23 - Uncertainty over income tax treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over income tax treatments ("**IFRIC 23**"). IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 - Income taxes ("**IAS 12**") when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019. Neo is in the process of determining the impact of this interpretation on its consolidated financial statements and does not expect significant impact to its consolidated financial statements.

NOTE 6 INVENTORIES

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

	September 30, 2018	December 31, 2017
Raw materials	$ 44,506	$ 34,011
Work-in-progress	32,316	24,591
Finished goods	47,995	38,420
Supplies	8,779	7,512
Total	**$ 133,596**	**$ 104,534**

The cost of finished goods manufactured includes appropriate materials, labour and production overhead expenditure. For the three and nine months ended September 30, 2017, $(0.5) million and $2.9 million of the fair value increments related to the inventory acquired through the Reorganization were released and recorded in costs of sales in the unaudited condensed consolidated statements of profit or loss.

NOTE 7 INVESTMENTS

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 holds a 33% investment in Toda Magnequench Magnetic Materials Co. Ltd. ("**TMT**"), which produces rare earth magnetic compounds with Magnequench Powders supplied by Magnequench (Tianjin) Company Limited ("**MQTJ**") in its normal course of business.

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.

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

Investments accounted for using the equity method are as follows:

	TMT	Keli	GQD	Total
Carrying value at January 1, 2018	$ 1,785	$ 6,391	$ 457	$ 8,633
Share of results in associates	(2)	(762)	27	(737)
Carrying value at September 30, 2018	**$ 1,783**	**$ 5,629**	**$ 484**	**$ 7,896**
Carrying value at January 1, 2017	$ 1,788	$ 5,178	$ 704	$ 7,670
Share of results in associates	6	1,213	(247)	972
Dividends received from associates	(9)	—	—	(9)
Carrying value at December 31, 2017	**$ 1,785**	**$ 6,391**	**$ 457**	**$ 8,633**

NOTE 8 CATEGORIES OF FINANCIAL INSTRUMENTS

The carrying amounts presented in the condensed consolidated statements of financial position relate to the following categories of financial assets and liabilities:

Financial Assets	September 30, 2018	December 31, 2017
Measured at amortized cost		
Cash and cash equivalents	$ 69,336	$ 96,805
Accounts receivable	53,932	46,766
Total financial assets	**$ 123,268**	**$ 143,571**

Financial Liabilities	September 30, 2018	December 31, 2017
Fair value through profit or loss		
Put option issued to non-controlling interest of Buss & Buss (Derivative liability)	$ 8,555	$ 9,842
Measured at amortized cost		
Current:		
Accounts payable and other accrued charges	63,541	72,250
Bank advances and other short-term debt	12	181
	63,553	72,431
Total financial liabilities	**$ 72,108**	**$ 82,273**

8.1 Derivative liability

As at September 30, 2018, Neo's derivative liability is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss Spezialmetalle GmbH ("**Buss & Buss**"). The derivative is measured at fair value.

<u>**Buss & Buss put option**</u>	**September 30, 2018**	**December 31, 2017**
Opening balance	$ 9,842	$ 9,654
Movement in fair value during the period	(1,287)	188
Ending balance	**$ 8,555**	**$ 9,842**

The Buss & Buss put option is related to a share purchase agreement ("**SPA**") between NMT Holdings GmbH, a German subsidiary of Neo, and the shareholders of Buss & Buss entered into May 27, 2010. The SPA includes a call and a put option on shares of the remaining shareholder and his legal successors. If the call option is exercised by Neo, a premium is added to the consideration to purchase the underlying shares in Buss & Buss. If the put option is exercised by the remaining shareholder or his legal successors, a discount will reduce the cost basis of the securities sold to Neo. Although, the final amount of the put option is not known, the initial fair value of this obligation was determined by a third party valuator based on information available at that time. The liability is subsequently re-measured at each reporting period with the change in fair value recorded in the condensed consolidated statements of profit or loss.

8.2 Financial assets and liabilities measured at fair value

The following table presents financial assets and liabilities measured at fair value in the condensed 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 in 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 condensed consolidated statements of financial position as at September 30, 2018 are grouped into the fair value hierarchy as follows:

	Level 1	**Level 2**	**Level 3**
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	$ —	$ —	$ 8,555

Neo's derivative liability classified in Level 3 uses the discounted cash flow method to determine the fair value based on significant inputs that are not based on observable market data.

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions would not significantly change amounts recognized in net income, total assets, total liabilities or total equity.

There have been no transfers between levels for the period ended September 30, 2018.

8.3 Bank advances, short-term loan and debt

8.3.1 Chinese bank advances

As of September 30, 2018, one of the Chinese subsidiaries has line of credit of approximately $18.9 million (Renminbi 130.0 million). No amount was drawn as at September 30, 2018.

8.3.2 German debt facility

As at September 30, 2018, Buss & Buss has an $8.2 million (€7.0 million) revolving line of credit which can be drawn either in Euro or U.S. dollar. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate ("**Euribor**") average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling shareholder of Buss & Buss amounting to $0.29 million (€0.25 million) as well as a lien amounting to $0.58 million (€0.50 million) on certain property, plant and equipment. The remainder of the revolving line of credit is secured by certain working capital of Buss & Buss.

As at September 30, 2018, no amount was drawn from the revolving line of credit.

There are no financial covenants which need to be met.

NOTE 9 OPERATING SEGMENTS

The primary metric used to measure the financial performance of each operating segment is adjusted operating income before depreciation and amortization ("**Adjusted OIBDA**"), which management believes provides a better indication of the base-line performance of Neo's core business operations.

A comparative breakdown of business segment information is as follows:

For the three months ended September 30, 2018:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 54,539	$ 37,289	$ 22,388	$ —	$ 114,216	$ —	$ 114,216
Inter-segment revenue	—	4,072	—	—	4,072	(4,072)	—
Total revenue	**$ 54,539**	**$ 41,361**	**$ 22,388**	**$ —**	**$ 118,288**	**$ (4,072)**	**$ 114,216**
Operating income (loss)	**$ 10,514**	**$ 3,908**	**$ 501**	**$ (4,460)**	**$ 10,463**	**$ 427**	**$ 10,890**
Other income							1,859
Finance income, net							128
Foreign exchange loss							(249)
Income from operations before income taxes and equity income (loss) of associates							**$ 12,628**
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	$ 10,514	$ 3,908	$ 501	$ (4,460)	$ 10,463	$ 427	$ 10,890
Depreciation and amortization	1,751	1,087	1,209	15	4,062	—	4,062
Stock and value-based compensation [1]	284	219	74	1,203	1,780	—	1,780
Adjusted OIBDA [2]	**$ 12,549**	**$ 5,214**	**$ 1,784**	**$ (3,242)**	**$ 16,305**	**$ 427**	**$ 16,732**
Capital expenditures	$ 658	$ 1,641	$ 218	$ —	$ 2,517	$ —	$ 2,517

Notes:

(1) 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 relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value-based compensation expense of $0.3 million was included in selling, general, and administration expense for the three months ended September 30, 2018.

(2) Certain items are excluded from operating income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

For the nine months ended September 30, 2018:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 166,502	$ 111,852	$ 66,480	$ —	$ 344,834	$ —	$ 344,834
Inter-segment revenue	—	11,363	—	—	11,363	(11,363)	—
Total revenue	**$ 166,502**	**$ 123,215**	**$ 66,480**	**$ —**	**$ 356,197**	**$ (11,363)**	**$ 344,834**
Operating income (loss)	**$ 35,287**	**$ 9,833**	**$ 4,140**	**$ (13,528)**	**$ 35,732**	**$ 932**	**$ 36,664**
Other income							9,937
Finance income, net							1,594
Foreign exchange loss							(183)
Income from operations before income taxes and equity income (loss) of associates							**$ 48,012**
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	$ 35,287	$ 9,833	$ 4,140	$ (13,528)	$ 35,732	$ 932	$ 36,664
Depreciation and amortization	5,567	3,376	3,663	45	12,651	—	12,651
Stock and value-based compensation (1)	578	705	249	3,031	4,563	—	4,563
Adjusted OIBDA (2)	**$ 41,432**	**$ 13,914**	**$ 8,052**	**$ (10,452)**	**$ 52,946**	**$ 932**	**$ 53,878**
Capital expenditures	$ 2,043	$ 5,222	$ 1,486	$ —	$ 8,751	$ —	$ 8,751

Notes:

(1) 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 relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value-based compensation expense of $0.9 million was included in selling, general, and administration expense for the nine months ended September 30, 2018.

(2) Certain items are excluded from operating income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

For the three months ended September 30, 2017:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 54,053	$ 45,561	$ 16,807	$ —	$ 116,421	$ —	$ 116,421
Inter-segment revenue	—	4,685	—	—	4,685	(4,685)	—
Total revenue	$ 54,053	$ 50,246	$ 16,807	$ —	$ 121,106	$ (4,685)	$ 116,421
Operating income (loss)	**$ 8,385**	**$ 6,689**	**$ 527**	**$ (3,628)**	**$ 11,973**	**$ (550)**	**$ 11,423**
Other loss							(284)
Finance income, net							155
Foreign exchange loss							(42)
Income from operations before income taxes and equity income (loss) of associates							**$ 11,252**
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	$ 8,385	$ 6,689	$ 527	$ (3,628)	$ 11,973	$ (550)	$ 11,423
Depreciation and amortization	1,689	1,883	1,526	15	5,113	—	5,113
Fair value of inventory release (1)	—	(418)	(113)	—	(531)	—	(531)
Stock and value-based compensation (2)	52	102	56	650	860	—	860
Adjusted OIBDA (3)	**$ 10,126**	**$ 8,256**	**$ 1,996**	**$ (2,963)**	**$ 17,415**	**$ (550)**	**$ 16,865**
Capital expenditures	$ 715	$ 1,466	$ 988	$ —	$ 3,169	$ —	$ 3,169

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 $27.1 million. A portion of this inventory was sold in the three months ended September 30, 2017 and had a $(0.5) million impact on operating income (loss).

(2) Represents stock and value-based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization and the long-term value bonus plan, which has similar vesting criteria to the stock-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value-based compensation expense of $nil was included in selling, general, and administration expense for the three months ended September 30, 2017.

(3) Certain items are excluded from operating income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

For the nine months ended September 30, 2017:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 143,774	$ 124,656	$ 56,287	$ —	$ 324,717	$ —	$ 324,717
Inter-segment revenue	—	10,022	—	—	10,022	(10,022)	—
Total revenue	$ 143,774	$ 134,678	$ 56,287	$ —	$ 334,739	$ (10,022)	$ 324,717
Operating income (loss)	**$ 28,155**	**$ 15,887**	**$ 3,215**	**$ (16,000)**	**$ 31,257**	**$ (1,148)**	**$ 30,109**
Other income							2,765
Finance income, net							180
Foreign exchange loss							(565)
Income from operations before income taxes and equity income (loss) of associates							**$ 32,489**
Reconciliation to Adjusted OIBDA:							
Operating income (loss)	$ 28,155	$ 15,887	$ 3,215	$ (16,000)	$ 31,257	$ (1,148)	$ 30,109
Depreciation and amortization	5,350	3,891	3,991	209	13,441	—	13,441
Fair value of inventory release [1]	868	2,463	(419)	—	2,912	—	2,912
Stock and value-based compensation [2]	348	694	385	4,414	5,841	—	5,841
Adjusted OIBDA [3]	**$ 34,721**	**$ 22,935**	**$ 7,172**	**$ (11,377)**	**$ 53,451**	**$ (1,148)**	**$ 52,303**
Capital expenditures	$ 1,278	$ 3,285	$ 2,909	$ —	$ 7,472	$ —	$ 7,472

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 $27.1 million. A portion of this inventory was sold in the nine months ended September 30, 2017 and had a $2.9 million impact on operating income (loss).

(2) Represents stock and value-based compensation expense in respect of the Legacy Plan adopted upon the completion of the Reorganization and the long-term value bonus plan, which has similar vesting criteria to the stock-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value-based compensation expense of $nil was included in selling, general, and administration expense for the nine months ended September 30, 2017.

(3) Certain items are excluded from operating income (loss) to derive Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

As at September 30, 2018:

	Magnequench	Chemicals and Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
Total assets	$ 251,431	$ 164,294	$ 120,134	$ 11,087	$ 546,946	$ (1,067)	$ 545,879
Investment in equity method associates	7,896	—	—	—	7,896	—	7,896
Total liabilities	(37,379)	(33,208)	(26,375)	(11,352)	(108,314)	—	(108,314)

As at December 31, 2017:

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

The geographic distribution of Neo's revenue based on the location of the customers for the three and nine months ended September 30, 2018 and September 30, 2017 is summarized as follows:

Revenue	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Asia:				
China	$ 39,806	$ 39,791	$ 107,635	$ 107,655
Japan	17,273	19,803	52,937	48,620
Thailand	3,712	4,282	12,383	11,244
South Korea	4,698	5,147	14,069	16,269
North America	16,678	23,373	54,876	67,869
Europe	28,393	21,707	92,738	66,862
Other	3,656	2,318	10,196	6,198
Total	**$ 114,216**	**$ 116,421**	**$ 344,834**	**$ 324,717**

Revenue from one significant customer accounts for $18.6 million and $60.1 million of Neo's total revenue for the three and nine months ended September 30, 2018, respectively, and $19.9 million and $53.9 million for the three and nine months ended September 30, 2017. Neo defines significant customers as those that are 10% or more of consolidated revenue.

NOTE 10 SUPPLEMENTAL CASH FLOW INFORMATION

Net change in non-cash working capital balances related to operations consists of the following:

	Nine Months Ended September 30,	
	2018	**2017**
Decrease (increase) in assets:		
Accounts receivable	$ (9,474)	$ (12,999)
Inventories	(30,874)	4,730
Other assets	(6,210)	2,592
Increase (decrease) in liabilities:		
Accounts payable and other accrued charges	(8,093)	8,426
Other liabilities	(519)	—
Total net change	**$ (55,170)**	**$ 2,749**

NOTE 11 COMMITMENTS AND CONTINGENCIES

11.1 Lease commitments

Neo's future minimum lease payments are as follows:

	Less than 1 year	1 to 5 years	Greater than 5 years	Total
Future minimum lease payments	$ 2,125	$ 4,943	$ 7	$ 7,075

11.2 Sales and purchase commitments

In the normal course of business, Neo and its subsidiaries enter into sales commitments with customers, and purchase commitments with suppliers. These commitments are for varying terms and can provide for fixed or variables prices. Neo believes that these contracts serve to reduce risk and does not anticipate that losses will be incurred on these contracts.

11.3 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 when 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 still 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.

In December 2017, the Regional Court of Mannheim (Germany) determined that certain of Neo's products infringed a German patent (European & UK patents #1435338 B1 ("**338**")), and an injunction prohibiting the sale of affected products into Germany was granted. Neo has appealed the decision and continues to pursue a lawsuit to invalidate the patent upon which this infringement ruling is based. In April 2018, the UK Court determined that certain of Neo's products infringed the equivalent UK patent 338. Neo's request for permission to appeal this judgment is pending before the Court of Appeal.

In January 2018, Neo reached a settlement with Magnesium Elektron Limited with respect to UK patent #1444036 whereby Neo is able to continue to sell its products into the UK on a royalty-free basis and without restriction. The terms of the settlement are subject to a confidentiality agreement.

On April 18, 2018, the Patent Reexamination Board of the State Intellectual Property Office of China ("**PRB")** ruled in favor of Neo by invalidating all claims associated with Chinese patent ZL 03817110.4, held by Rhodia Operations S.A.S., an affiliate of Brussels-based Solvay ("**Rhodia Operations**"). On May 23, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by Rhodia Operations alleging infringement Chinese patent ZL 03817110.4. Rhodia Operations has appealed the decisions of the PRB and the Intermediate People's Court of Zibo concerning Patent ZL 03817110.4.

On October 10, 2018, the PRB again ruled in favour of Neo by invalidating all product claims associated with patent ZL 200710146613.6, held by Daiichi Kigenso Kagaku Kogyo Co. ("**DKKK**"). On October 24, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by DKKK and Rhodia Operations alleging infringement of patent ZL 200710146613.6. DKKK and Rhodia Operations have the right to appeal these decisions.

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 200710146613.6	China	$2.3 million
European patent 0863846 B1	Germany	$8.4 million
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 patents 1435338 B1	UK	Not specified
European & UK patents 1435338 B1	Germany	Not specified
European patent 0605274 B1	Germany	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified

Management has made an assessment, based on its interpretation of the claims as to the quantum of the appropriate provision for certain claims. 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 all other 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 Neo's results of operations and financial condition.

NOTE 12 SHARE CAPITAL

	September 30, 2018	December 31, 2017
Number of common shares authorized for issue:	Unlimited	Unlimited
Number of preference shares authorized for issue:	Unlimited	Unlimited
Total common shares issued and fully paid	39,824,693	39,921,577
Total treasury shares	—	—

None of Neo's shares are held by any subsidiary or associate.

Normal Course Issuer Bid

On March 19, 2018, Neo announced that the Toronto Stock Exchange (the "**TSX**") has accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**Bid**") for up to 1,996,078 of its issued and outstanding common shares (the "**Shares**"). In connection with the Bid, Neo has entered into an automatic share purchase plan with its designated broker to allow for purchases of its Shares (the "**Share Purchase Plan**"). The Share Purchase Plan is considered an "automatic plan" for purposes of applicable Canadian securities laws. Under the Share Purchase Plan, Neo's broker may purchase Shares on any trading day during the Bid, including during self-imposed trading blackout periods. The price that Neo will pay for any Shares purchased under the Bid will be the prevailing market price at the time of purchase. Any Shares purchased by Neo will be canceled.

As of March 16, 2018, being the date of the notice of the Bid, there were 39,921,577 Shares issued and outstanding. The 1,996,078 Shares that may be repurchased under the Bid represent approximately 5% of the issued and outstanding Shares on March 16, 2018.

For the three and nine months ended September 30, 2018, Neo repurchased and canceled 92,223 and 146,869 Shares, respectively, for a total consideration of $1.2 million and $1.9 million, respectively.

NOTE 13 EARNINGS PER SHARE

13.1 Basic earnings per share

The calculation of basic earnings per share was based on net income attributable to equity holders of Neo for the three and nine months ended September 30, 2018, and September 30, 2017. The weighted average number of shares outstanding is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Common shares issued at beginning of period	39,866,931	39,770,488	39,921,577	39,630,244
Weighted average impact of:				
Issuance of common shares	21,157	39,848	7,130	118,740
Repurchase and cancellation of common shares under Normal Course Issuer Bid	(72,990)	—	(49,587)	—
Weighted average number of common shares for the period - basic	**39,815,098**	**39,810,336**	**39,879,120**	**39,748,984**

13.2 Diluted earnings per share

The calculation of diluted earnings per share was based on net income attributable to equity holders of Neo, and the weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income attributable to equity holders of Neo Performance Materials Inc. - basic and diluted	$ 8,669	$ 9,051	$ 36,510	$ 26,523

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average number of common shares - basic. . .	39,815,098	39,810,336	39,879,120	39,748,984
Dilutive effect of Stock Units	556,522	495,624	561,296	450,744
Weighted average number of common shares - diluted	**40,371,620**	**40,305,960**	**40,440,416**	**40,199,728**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Earnings per share - basic	$ 0.22	$ 0.23	$ 0.92	$ 0.67
Earnings per share - diluted	$ 0.21	$ 0.22	$ 0.90	$ 0.66

For the three and nine months ended September 30, 2018, 1,099,182 (three and nine months ended September 30, 2017: 1,099,182) PSUs and Special PSUs were excluded from the dilutive weighted-average number of ordinary shares calculation as they are contingently issuable upon a liquidity event occurring and achieving certain shareholders' internal milestones which were not met at period end.

NOTE 14 INCOME TAXES

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

For the three months ended September 30, 2018 and 2017, Neo's effective income tax rates were 31.5% and 23.0%, respectively. The effective tax rate for the three months ended September 30, 2018 is impacted primarily by unrecognized deferred tax assets in Canada and the United States.

NOTE 15 STOCK-BASED COMPENSATION

The Neo Cayman management incentive plan was assigned to Neo upon the completion of the Arrangement. This plan, (the "**Legacy Plan**"), was comprised of Share Options ("**Options**"), Restricted Share Units ("**RSUs**"), Performance Stock Units ("**PSUs**") and Special Performance Stock Units ("**Special PSUs**") (collectively referred to as "**Stock Units**"). These Stock Units were granted under the Legacy Plan to directors, officers, and employees, and provide the right for these individuals to receive common shares or in the case of the options, purchase common shares.

On May 9, 2018, pursuant to Neo's IPO, Neo adopted a long-term incentive plan (the "**LTIP**") to replace the Legacy Plan. These stock-based awards under LTIP will vest over time and according to performance milestones. However, similar to the terms of the Legacy Plan, these stock-based awards will vest immediately in full upon the occurrence of a Liquidity Event, subject to the participant's continued service to Neo through the completion of the Liquidity Event. Under the LTIP, Neo granted stock options, deferred share units ("**DSUs**"), RSUs, PSUs and additional PSUs to certain of its directors and executives in the three months ended September 30, 2018.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Options	$ 227	$ 42	$ 597	$ 1,532
RSUs	594	357	1,320	1,863
PSUs	322	363	1,268	1,998
Special PSUs	58	98	196	448
DSUs	277	—	277	—
Total	**$ 1,478**	**$ 860**	**$ 3,658**	**$ 5,841**

NOTE 16 RELATED PARTY TRANSACTIONS

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.

16.1 Transactions with associates

On occasion, MQTJ will supply Magnequench Powders to TMT to produce rare earth magnetic compounds. MQTJ will then purchase these compounds back from TMT in its normal course of business. Keli and GQD processes rare earth oxides into metals for inclusion in Magnequench Powders.

For the three and nine months ended September 30, 2018, Neo purchased \$0.4 million and \$1.2 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$17.0 million and \$51.2 million, and received services from GQD amounting to \$0.2 million and \$0.7 million, respectively.

For the three and nine months ended September 30, 2018, Neo sold Magnequench Powders and performed services, amounting to \$0.6 million and \$1.8 million to TMT, sold rare earth oxides to Keli amounting to \$1.1 million and \$1.3 million, respectively.

For the three and nine months ended September 30, 2017, Neo purchased \$0.5 million and \$1.4 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$23.5 million and \$49.8 million, and received services from GQD amounting to \$0.3 million and \$0.7 million, respectively.

For the three and nine months ended September 30, 2017, Neo sold Magnequench Powders and performed services, respectively, amounting to \$1.1 million and \$2.4 million to TMT.

16.2 Transactions with joint venturers

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 three and nine months ended September 30, 2018, these purchases were nil and $0.7 million, respectively. There were no transactions with Beijing Jiya for the three and nine months ended September 30, 2017.

Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. ("**Qian Dong**") and Toda Kogyo Corp. ("**Toda**"). For the three and nine months ended September 30, 2018, purchases from Qian Dong were minimal and $0.3 million, respectively. Sales to Toda for the three and nine months ended September 30, 2018, were $0.2 million and $0.8 million, respectively. There were no transactions with Qian Dong and Toda for the three and nine months ended September 30, 2017.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Sale of goods and services to related parties	$ 1,952	1,109	$ 4,018	$ 2,362
Purchase of goods and services from related parties	17,734	24,346	54,177	51,989

	September 30, 2018	**December 31, 2017**
Trade balances:		
from related parties	$ 278	$ 160
due to related parties	(9,624)	(12,943)
Total	**$ (9,346)**	**$ (12,783)**

NOTE 17 DIRECTORS AND KEY MANAGEMENT COMPENSATION

Neo's key management personnel consist of 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. Neo's key management compensation expenses include short-term benefits, post-employment benefits and stock-based compensation expenses. Total key management compensation expenses incurred are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Directors	$ 364	129	$ 657	$ 483
Key Executive Management	2,006	2,217	5,726	8,023
Total	$ 2,370	$ 2,346	$ 6,383	$ 8,506

NOTE 18 FINANCIAL RISK MANAGEMENT

In the normal course of operations, Neo is exposed to a number of different financial risks. These risk factors include market risks such as foreign exchange risk, interest rate risk, other price risk, as well as credit risk and liquidity risk.

18.1 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, equity prices and interest rates will affect Neo's net earnings or the value of financial instruments. The objective of market risk management is to mitigate exposures within acceptable limits, while maximizing returns.

18.2 Foreign currency exchange risk

Foreign currency exchange risk refers to the fluctuation of financial commitments, assets, liabilities, income or cash flow due to changes in foreign exchange ("**FX**") rates. Neo conducts business transactions and owns assets in multiple countries; as a result, Neo is subject to fluctuations in respect of the currencies in which it operates. Neo's income is exposed to FX risk largely in the following ways:

- Translation of foreign currency denominated revenue and expenses into U.S. dollars, the currency in which Neo reports in – When the foreign currency changes in relation to the U.S. dollar, income reported in U.S. dollars will change. The impact of weakening foreign currency in relation to the U.S. dollar for foreign currency denominated revenue and expenses will result in higher net income because Neo has more foreign currency-based expenses than revenue.

- Translation of foreign currency denominated debt and other monetary items – A weakening foreign currency in respect of Neo's foreign currency denominated debt will decrease the debt in U.S. dollar terms and generate a FX gain on bank advances and other short-term debt, which is recorded in income. Neo calculates FX on the short-term debt using the difference in FX rates at the beginning and at the end of each reporting period. Other foreign currency denominated monetary items will also be impacted by changes in FX rates.

The following table summarizes in U.S. dollar equivalents Neo's major currency exposures as of September 30, 2018:

	Chinese Renminbi	Euro	USD	Thai Baht	Canadian Dollar	British Pound
Cash and cash equivalents	$ 6,891	$ 480	$ 10,710	$ 2,571	$ 2,705	$ 112
Accounts receivable	2,575	484	2,150	1,381	—	—
Other receivable	—	5,982	—	2,518	142	—
Accounts payable and accrued liabilities	(9,024)	(9,202)	(6)	(1,236)	(589)	(456)
Income taxes payable	(335)	(10)	—	—	(573)	—
Net financial assets (liabilities)	**$ 107**	**$ (2,266)**	**$ 12,854**	**$ 5,234**	**$ 1,685**	**$ (344)**

The following table shows the impact of a one-percentage point strengthening or weakening of foreign currencies against the U.S. dollar as of September 30, 2018 for Neo's financial instruments denominated in non-functional currencies:

	Chinese Renminbi	Euro	Thai Baht	Canadian Dollar	British Pound
1% Strengthening					
Net earnings before tax	$ 1	$ (23)	$ 52	$ 17	$ (3)
1% Weakening					
Net earnings before tax	(1)	23	(52)	(17)	3

The effect on profit or loss of a one-percentage point strengthening or weakening of U.S. dollar financial assets and liabilities held in non-U.S. dollar functional currency subsidiaries is a $44 thousand gain or loss, respectively.

18.3 Interest rate risk

This refers to the risk that future cash flows will fluctuate as a result of changes in market interest rates.

As at September 30, 2018, Neo has no outstanding bank loans and did not draw from the line of credit, and thus does not have significant exposure to interest rate fluctuations.

18.4 Credit risk

Credit risk refers to the possibility that a customer or counterparty will fail to fulfill its obligations under a contract and as a result, create a financial loss for Neo. Neo has a credit policy that defines standard credit practice. This policy dictates that all new customer accounts are reviewed prior to approval and establishes the maximum amount of credit exposure per customer. Credit worthiness and financial well-being of the customer is monitored on an ongoing basis.

Under IFRS 9, Neo establishes loss allowance using the ECL impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at September 30, 2018, Neo has a loss allowance of $0.1 million. The estimated credit losses, if any, is included in selling, general and administrative expenses in the condensed consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose Neo 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 September 30, 2018, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

18.5 Liquidity risk

Liquidity risk is the risk that Neo will not be able to meet its financial obligations as they fall due. Neo manages liquidity risk through the management of its capital structure, as outlined in Note 19**.** It also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account Neo's sales and receipts and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves Neo's annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisitions and other major investments.

The following table reflects the contractual maturity of Neo's financial liabilities as at September 30, 2018:

Financial liabilities	1 year	2-3 years	4-5 years	Beyond 5 years	Total
Bank advances and other short-term debts	$ 12	$ —	$ —	$ —	$ 12
Accounts payable and other accrued charges	63,541	—	—	—	63,541
Derivative liability*	—	—	—	8,555	8,555
Provisions	—	4,706	—	—	4,706
Other liabilities	2,147	994	—	—	3,141
Total	**$65,700**	**$ 5,700**	**$ —**	**$ 8,555**	**$79,955**

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

NOTE 19 CAPITAL DISCLOSURES

Neo's objectives when managing its capital are:

- to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future growth of the business, both internally and by acquisition;
- to provide an adequate return to its shareholders;
- to manage capital in a manner that will maintain compliance with its financial covenants.

Neo defines its capital as follows:

- shareholders' equity;
- non-controlling interests;
- bank advances and other short-term debt; and
- long-term debt

Neo manages its capital structure and makes adjustments to it in accordance with the aforementioned objectives, as well as in the light of changes in economic conditions and the risk characteristics of the underlying assets. As well, Neo may issue new shares and/or new debt to replace existing debt. There are no assurances that these initiatives will be carried out.

In the management of capital, Neo has established quantitative return on capital criteria, and year-over-year sustainable earnings growth targets for Neo's divisions. These targets are monitored and reviewed on a quarterly basis by using a number of key financial metrics, including:

- return on capital employed ("**ROCE**"): adjusted operating income divided by average adjusted capital employed – ROCE is a key measurement of financial performance, focusing on cash and the efficient use of capital;
- net debt to capitalization, is net debt (the sum of long-term debt including the current portion and bank advances, less cash), divided by the sum of net debt, shareholders' equity and non-controlling interests.

Both of these metrics have no standardized meanings prescribed by IFRS and, therefore, are unlikely to be comparable to similar measures of other companies.

NOTE 20 SUBSEQUENT EVENTS

On November 13, 2018, the Board of Directors declared a quarterly dividend of Canadian dollar ("**Cdn**") $0.095 per Common Share payable in cash on December 28, 2018, to common shareholders of record at the close of business on December 20, 2018.

Between October 1 and November 13, 2018, Neo repurchased and canceled 400 Shares for a nominal consideration.