



NEO PERFORMANCE MATERIALS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED
SEPTEMBER 30, 2022**

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

	<u>September 30, 2022</u>	<u>December 31, 2021</u>
ASSETS		
Current		
Cash and cash equivalents	123,903	89,037
Restricted cash	1,210	1,283
Accounts receivable	81,226	65,209
Inventories (Note 5)	199,802	200,954
Income taxes receivable	498	1,667
Other current assets	22,697	19,211
Total current assets	429,336	377,361
Property, plant and equipment (Note 6)	71,845	73,378
Intangible assets	43,450	49,961
Goodwill	65,034	70,082
Investments (Note 7)	17,145	13,759
Deferred tax assets	9,372	6,638
Other non-current assets	1,998	2,903
Total non-current assets	208,844	216,721
Total assets	\$ 638,180	\$ 594,082
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt (Note 8)	15,219	6,502
Accounts payable and other accrued charges	60,785	94,201
Income taxes payable	11,140	7,059
Provisions (Note 18)	643	5,560
Lease obligations	1,082	1,589
Derivative liability (Note 8)	17,206	14,704
Current portion of long-term debt (Note 8)	683	—
Other current liabilities	364	1,455
Total current liabilities	107,122	131,070
Long-term debt (Note 8)	5,809	—
Employee benefits	1,157	1,210
Provisions (Note 18)	23,020	15,127
Deferred tax liabilities	16,030	13,366
Lease obligations	1,143	1,388
Other non-current liabilities	1,335	1,405
Total non-current liabilities	48,494	32,496
Total liabilities	155,616	163,566
Non-controlling interest	3,028	2,891
Equity attributable to equity holders of Neo Performance Materials Inc.	479,536	427,625
Total equity	482,564	430,516
Total liabilities and equity	\$ 638,180	\$ 594,082

Commitments and contingencies [\(Note 11\)](#)

Subsequent events [\(Note 21\)](#)

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,	
	2022	2021	2022	2021
Revenue	146,627	119,841	481,130	385,837
Costs of sales				
Costs excluding depreciation and amortization	120,137	83,330	356,249	268,830
Depreciation and amortization	2,279	1,980	7,045	5,771
Gross profit	24,211	34,531	117,836	111,236
Expenses				
Selling, general and administrative	13,781	13,347	42,296	41,024
Share-based compensation (Note 15)	735	1,198	1,873	2,761
Depreciation and amortization	1,781	1,908	5,529	5,798
Research and development	5,675	5,520	15,956	14,492
Impairment of assets	—	—	295	—
	21,972	21,973	65,949	64,075
Operating income	2,239	12,558	51,887	47,161
Other expense	(448)	(1,284)	(1,736)	(7,145)
Finance (cost) income, net (Note 8)	(1,437)	999	(4,143)	(674)
Foreign exchange loss	(723)	(755)	(175)	(1,844)
(Loss) income from operations before income taxes and equity income of associates	(369)	11,518	45,833	37,498
Income tax expense (Note 14)	(3,775)	(3,670)	(15,771)	(10,282)
(Loss) income from operations before equity income of associates	(4,144)	7,848	30,062	27,216
Equity income of associates (net of income tax) (Note 7)	332	288	3,518	1,564
Net (loss) income	\$ (3,812)	\$ 8,136	\$ 33,580	\$ 28,780
Attributable to:				
Equity holders of Neo Performance Materials Inc.	\$ (3,719)	\$ 8,036	\$ 33,238	\$ 28,442
Non-controlling interest	(93)	100	342	338
	\$ (3,812)	\$ 8,136	\$ 33,580	\$ 28,780
(Loss) earnings per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic (Note 13)	\$ (0.09)	\$ 0.21	\$ 0.81	\$ 0.75
Diluted (Note 13)	\$ (0.09)	\$ 0.21	\$ 0.80	\$ 0.75

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,	
	2022	2021	2022	2021
Net (loss) income for the period	\$ (3,812)	\$ 8,136	\$ 33,580	\$ 28,780
Other comprehensive (loss) income:				
Item that is or may be reclassified subsequently to profit or loss:				
Currency translation adjustment	(11,623)	(164)	(22,070)	904
Other comprehensive (loss) income for the period ...	(11,623)	(164)	(22,070)	904
Total comprehensive (loss) income for the period ...	\$ (15,435)	\$ 7,972	\$ 11,510	\$ 29,684
Attributable to:				
Non-controlling interest	(205)	101	137	398
Equity holders of Neo Performance Materials Inc. ...	(15,230)	7,871	11,373	29,286
	\$ (15,435)	\$ 7,972	\$ 11,510	\$ 29,684

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,	
	2022	2021
Operating activities		
Net income for the period	\$ 33,580	\$ 28,780
Add (deduct) items not affecting cash:		
Depreciation and amortization	12,574	11,569
Share-based compensation	1,873	2,761
Provisions (Note 18)	7,209	10,121
Change in pension liability	(53)	(99)
Finance costs, net	4,143	674
Equity income of associates, net of income tax (Note 7)	(3,518)	(1,564)
Loss (gain) on disposal of assets	215	(743)
Income tax expense (Note 14)	15,771	10,282
Foreign exchange (income) loss	(784)	888
Impairment of assets	295	—
Other	(388)	(50)
Net change in non-cash working capital balances related to operations (Note 10)	(64,632)	(58,930)
Income taxes paid, net of income taxes recovered	(8,847)	(7,032)
Interest paid, net of interest received	(392)	(5)
Provision payments (Note 18)	(899)	(274)
Cash used in operating activities	\$ (3,853)	\$ (3,622)
Investing activities		
Additions of property, plant and equipment	(10,988)	(6,347)
Additions of intangible assets	(110)	(284)
Proceeds from sale of assets	—	426
Acquisition of equity securities (Note 12)	—	(776)
Decrease in restricted cash	—	105
Other investing activities	—	(5)
Cash used in investing activities	\$ (11,098)	\$ (6,881)
Financing activities		
Increase in bank advances and other short-term debt, net	10,459	3,057
Proceeds from issuance of common shares from treasury	47,728	—
Dividends paid to equity holders of Neo Performance Materials Inc.	(9,861)	(9,229)
Share-based compensation paid	(847)	(1,697)
Proceeds from long-term debt	7,286	—
Repayment of long-term debt	(358)	—
Repurchase of common shares	—	(37)
Lease payments	(1,127)	(1,153)
Withholding taxes paid, net of amount received from issuance of common shares on stock-based awards	54	(406)
Cash provided by (used in) financing activities	53,334	(9,465)
Effect of exchange rate changes on cash and cash equivalents	(3,517)	(522)
Cash provided (used) during the period	34,866	(20,490)
Cash and cash equivalents, beginning of period	89,037	72,224
Cash and cash equivalents, end of period	\$ 123,903	\$ 51,734

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				Total			
	Common Stock		Retained Earnings (Deficit)	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains, net of tax	Accumulated Other Comprehensive Income (loss)	Equity Attributable to Equity Holders of NPM Inc.	Non-Controlling Interest	Equity
	Number	Amount								
Balance - January 1, 2022	40,668,902	\$ 41	\$ (19,253)	\$ 439,795	\$ 6,034	\$ 1,008	\$ 7,042	\$ 427,625	\$ 2,891	\$ 430,516
Net income	—	—	33,238	—	—	—	—	33,238	342	33,580
Other comprehensive loss	—	—	—	—	(21,865)	—	(21,865)	(21,865)	(205)	(22,070)
Total comprehensive income	—	—	33,238	—	(21,865)	—	(21,865)	11,373	137	11,510
Share-based compensation	—	—	—	2,638	—	—	—	2,638	—	2,638
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(9,861)	—	—	—	—	(9,861)	—	(9,861)
Issuance of common shares on stock-based awards	21,285	—	—	33	—	—	—	33	—	33
Issuance of common shares from treasury	4,506,734	4	—	47,724	—	—	—	47,728	—	47,728
	4,528,019	4	(9,861)	50,395	—	—	—	40,538	—	40,538
Balance - September 30, 2022	45,196,921	\$ 45	\$ 4,124	\$ 490,190	\$ (15,831)	\$ 1,008	\$ (14,823)	\$ 479,536	\$ 3,028	\$ 482,564
Balance - January 1, 2021	37,460,390	\$ 37	\$ (41,657)	\$ 400,771	\$ 2,567	\$ 277	\$ 2,844	\$ 361,995	\$ 1,490	\$ 363,485
Net income	—	—	28,442	—	—	—	—	28,442	338	28,780
Other comprehensive income	—	—	—	—	844	—	844	844	60	904
Total comprehensive income	—	—	28,442	—	844	—	844	29,286	398	29,684
Purchase of equity from non-controlling interest	—	—	—	—	—	—	—	—	(5)	(5)
Non-controlling interest of the subsidiary sold	—	—	—	—	—	—	—	—	457	457
Share-based compensation	—	—	—	234	—	—	—	234	—	234
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(9,229)	—	—	—	—	(9,229)	—	(9,229)
Shares repurchased and canceled under Normal Course Issuer Bid (Note 12)	(3,400)	—	—	(37)	—	—	—	(37)	—	(37)
Issuance of common shares on stock-based awards	527,912	1	—	(603)	—	—	—	(602)	—	(602)
	524,512	1	(9,229)	(406)	—	—	—	(9,634)	452	(9,182)
Balance - September 30, 2021	37,984,902	\$ 38	\$ (22,444)	\$ 400,365	\$ 3,411	\$ 277	\$ 3,688	\$ 381,647	\$ 2,340	\$ 383,987

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited - tabular figures in thousands of United States dollars, unless otherwise stated)

NOTE 1 NATURE OF OPERATIONS

Neo Performance Materials Inc. ("**Neo**", the "**Company**" or the "**Group**") is a Canadian public company traded on the Toronto Stock Exchange ("**TSX**") and was incorporated on September 12, 2017 under the *Business Corporations Act* (Ontario). Neo's registered and head office is located at 121 King Street West, Suite 1740, Toronto, Ontario, Canada, M5H 3T9.

On September 16, 2022, Neo completed a bought deal treasury offering of common shares of Neo. Neo issued and sold from treasury an aggregate of 4,506,734 common shares at a price of Cdn. \$15.00 per share for total gross proceeds to Neo of approximately Cdn. \$67.6 million ("**treasury offering**").

On August 26, 2022, Hastings Technology Metals Ltd. ("**Hastings**") entered into a binding Share Purchase Agreement with an affiliate of Oaktree Capital L.P. ("**Oaktree**") to acquire 8,974,127 common shares of Neo at Cdn. \$15.00 per share, for an aggregate purchase price of Cdn. \$134.6 million ("**transaction**"). The transaction was completed on October 13, 2022.

Following the completion of the transaction and treasury offering, Hastings holds 8,974,127 common shares of Neo representing 19.9% of the issued and outstanding common shares of Neo and Oaktree holds 904,028 common shares of Neo representing 2.0% of the issued and outstanding common shares of Neo.

Neo manufactures the building blocks of many modern technologies that enhance efficiency and sustainability. Neo's advanced industrial materials, magnetic powders and magnets, specialty chemicals, metals, and alloys, are critical to the performance of many everyday products and emerging technologies. Neo's products help to deliver the technologies of tomorrow to consumers today.

Neo has approximately 1,765 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 one dedicated research and development ("**R&D**") centre in Singapore. Since 1994, Neo has leveraged its processing expertise to innovate and grow into a leading manufacturer of advanced industrial materials for specialty end markets. Neo has established itself as a leading commercial partner to some of the world's largest customers in the automotive, manufacturing, semiconductor, advanced electronic and specialty chemical industries. As a result, Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and superalloys. Neo identifies growth markets driven by global macro trends such as these, and produces highly engineered industrial materials that are critical to the performance of applications in those markets.

Neo is organized along three business segments: Magnequench, Chemicals & Oxides ("**C&O**") and Rare Metals ("**RM**"), as well as the Corporate segment.

Magnequench

The Magnequench segment, with more than 30 years of manufacturing experience, is the world leader in the production of permanent magnetic powders used in bonded and hot-deformed, fully dense neodymium-iron-boron ("**NdFeB**" or "**neo**") magnets. These powders are formed through Magnequench's market-leading technology related to the development, processing, and manufacturing of neo magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of various inputs. Magnequench also manufactures magnets using these bonded magnetic powders. These powders and bonded permanent magnets are

used in the following: micro motors for household applications like vacuum cleaners, refrigerators, hair dryers, air conditioners and residential heating and cooling circulation pumps; industrial and other sensors; motors used in various automotive applications for hybrid, electric, and internal combustion engine vehicles; 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 advanced industrial materials that have become an indispensable part of modern life. Neo's world-class processing and advanced materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered materials. Applications from these products include automotive catalysts, permanent magnetics, consumer electronics, petroleum refining catalysts, medical devices, and wastewater treatment.

Rare Metals

The RM segment sources, reclaims, produces, refines, and markets high-value specialty 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 flat panel displays, solar, steel additives, batteries and electronics applications.

Corporate

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

Future development

On August 22, 2022, Hudson Resources In. ("**Hudson**") and Neo entered into a binding agreement ("**Agreement**") whereby Neo will acquire from Hudson an exploration license ("**License**") covering the Sarfartoq Carbonatite Complex in southwest Greenland (the "**Project**"). The Project hosts a mineral deposit that is enriched in neodymium and praseodymium, two essential elements for rare earth permanent magnets used in electric vehicles, wind turbines, and high-efficiency electric motors and pumps that help reduce greenhouse gas emissions. Neo intends to assign its rights under the Agreement to a Special-Purpose Entity ("**SPE**") controlled by Neo that would hold the License and continue exploration and ultimately extraction of the rare earth elements on the Project.

Consideration to be paid for the License includes a nonrefundable initial cash payment of \$0.25 million which was paid by Neo after signing the agreement, as well as an additional \$3.25 million upon closing. Additionally, If within five years from the date of closing of the transaction (1) the SPE transfers the License, or there is a change in control of the SPE pursuant to an acquisition or merger, then Hudson will receive 5% of the total consideration received by the SPE in connection with such transfer, or (2) the SPE conducts an initial public offering on a stock exchange ("**IPO**"), then Hudson will receive 5% of the fully diluted equity interests in the SPE immediately prior to the IPO.

Completion of the sale of the license (the "**Transaction**") is subject to various conditions, including approval from the Government of Greenland for the transfer of the License, expected to take approximately six months, and approval of the TSX Venture Exchange (the "**TSXV**") on the part of Hudson. These conditions have not yet been satisfied such that the sale of the License remains incomplete as at September 30, 2022.

NOTE 2 GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS

These 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 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, 2021. The significant accounting policies disclosed in Note 4 of Neo's audited annual financial statements for the year ended December 31, 2021 have been applied consistently in the preparation of these interim condensed consolidated financial statements.

The interim condensed consolidated financial statements were approved and authorized for issuance by Neo's Board of Directors ("**Board**") on November 10, 2022.

Significant management judgment in applying accounting policies

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

NOTE 3 BASIS OF PREPARATION

These 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 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 RECENT ACCOUNTING PRONOUNCEMENTS

Neo adopted the following accounting standards and amendments to accounting standards during the period ended September 30, 2022:

4.1 Onerous Contracts - Costs of Fulfilling a Contract (Amendments to IAS 37)

On May 14, 2020, the IASB issued amendments to IAS 37 Onerous Contracts - Cost of Fulfilling a Contract to specify that the 'cost of fulfilling' a contract comprise both:

- incremental costs of fulfilling that contract, for example direct labour and materials; and

- an allocation of other costs that relate directly to fulfilling contracts, for example the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract.

The amendments were effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. The amendment was adopted by Neo on January 1, 2022. The amendment did not have a material impact on the interim condensed consolidated financial statements.

4.2 Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. More specifically:

- the amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists;
- the amendments clarify that classification is unaffected by expectations, or to any periods retrospectively, about whether an entity will exercise its right to defer settlement of a liability; and
- the amendments clarify the situations that are considered settlement of a liability.

This amendment to IAS 1 is effective for annual periods starting on or after January 1, 2023, earlier application is permitted. The amendment was adopted by Neo on January 1, 2022. The amendment did not have a material impact on the interim condensed consolidated financial statements.

The following are new accounting pronouncements or amendments that have been issued by the IASB but have not yet been adopted by Neo:

4.3 Definition of Accounting Estimates (Amendments to IAS 8)

On February 12, 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8) to introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The new guidance will be effective for annual periods starting on or after January 1, 2023 and will be applied prospectively, with earlier application permitted.

4.4 Disclosure Initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

On February 12, 2021, the IASB issued Disclosure Initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) to help companies provide useful accounting policy disclosures. The key amendments include:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments are effective for annual periods beginning on or after January 1, 2023 and will be applied prospectively, with early adoption permitted.

4.5 Deferred Tax Related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

In May 2021, the IASB issued amendments to IAS 12 Income Taxes to clarify how entities should account for deferred tax on certain transactions such as leases and decommissioning provisions. The amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences.

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted.

4.6 Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)

In September 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) with amendments that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

The amendments are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted.

Neo does not anticipate that any of these amendments will have a material impact on its consolidated financial statements.

NOTE 5 INVENTORIES

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

	September 30, 2022	December 31, 2021
Raw materials	\$ 56,073	\$ 73,023
Work-in-progress	58,694	42,019
Finished goods	77,508	78,412
Supplies	7,527	7,500
Total	\$ 199,802	\$ 200,954

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

For the three months ended September 30, 2022, a total of \$118.1 million of inventories was included in the cost of sales compared to \$83.5 million for the three months ended September 30, 2021. These include \$8.0 million of provisions for inventories in the three months ended September 30, 2022 and \$0.6 million reversal of provisions in the three months ended September 30, 2021 due to improvement in market prices of the products previously provided for.

For the nine months ended September 30, 2022, a total of \$352.6 million of inventories was included in cost of sales compared to \$266.1 million for the nine months ended September 30, 2021. These included \$8.7 million of provisions for inventories in the nine months ended September 30, 2022 and \$2.3 million, net of reversals, in the nine months ended September 30, 2021.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	Land	Building & improvements	Machinery & Equipment	Right-of-use Assets	Office equipment	Construction in Progress (net of transfer)	Total
At January 1, 2022							
Cost	\$ 2,550	\$ 36,059	\$ 78,262	\$ 6,755	\$ 8,023	\$ 4,929	\$136,578
Accumulated depreciation	—	(14,101)	(41,630)	(3,586)	(3,883)	—	(63,200)
Opening net book value at January 1, 2022	\$ 2,550	\$ 21,958	\$ 36,632	\$ 3,169	\$ 4,140	\$ 4,929	\$ 73,378
Additions ⁽¹⁾	—	18	448	4,992	339	5,822	11,619
Write-offs, net of cost and accumulated depreciation	—	—	(168)	(39)	(22)	—	(229)
Transfers	—	566	2,148	—	612	(3,326)	—
Currency translation adjustments	—	(1,132)	(1,757)	(136)	(262)	(190)	(3,477)
Impairments	—	—	(295)	—	—	—	(295)
Depreciation expense	—	(1,958)	(5,041)	(1,208)	(944)	—	(9,151)
Closing net book value at September 30, 2022 ..	\$ 2,550	\$ 19,452	\$ 31,967	\$ 6,778	\$ 3,863	\$ 7,235	\$ 71,845

Comprised of:

Cost	\$ 2,550	\$ 34,573	\$ 76,128	\$ 11,292	\$ 8,218	\$ 7,235	\$139,996
Accumulated depreciation	—	(15,121)	(44,161)	(4,514)	(4,355)	—	(68,151)

Notes:

- (1) In June 2021, Neo Jia Hua Advanced Material (Zibo) Co., Ltd. ("NAMCO"), one of Neo's subsidiaries in China, entered into a 50 year land lease agreement with the Chinese government in the amount of \$4.4 million. In March 2022, NAMCO received the land certificate from the Chinese government which gives permission to NAMCO to begin using the land as stated in the lease agreement.

	<u>Land</u>	<u>Building & improvements</u>	<u>Machinery & Equipment</u>	<u>Right-of-use Assets</u>	<u>Office equipment</u>	<u>Construction in Progress (net of transfer)</u>	<u>Total</u>
At January 1, 2021							
Cost	\$ 2,550	\$ 34,519	\$ 71,647	6,142	\$ 7,105	\$ 4,194	\$126,157
Accumulated depreciation	—	(12,057)	(34,210)	(2,382)	(3,186)	—	(51,835)
Opening net book value at January 1, 2021	\$ 2,550	\$ 22,462	\$ 37,437	\$ 3,760	\$ 3,919	\$ 4,194	\$ 74,322
Additions	—	61	1,215	1,202	184	7,699	10,361
Write-offs, net of cost and accumulated depreciation	—	—	(136)	(125)	(146)	(103)	(510)
Transfers	—	1,033	4,658	—	1,181	(6,872)	—
Currency translation adjustments	—	250	164	29	58	11	512
Impairment	—	—	(121)	—	—	—	(121)
Depreciation expense	—	(1,848)	(6,585)	(1,697)	(1,056)	—	(11,186)
Closing net book value at December 31, 2021 ...	\$ 2,550	\$ 21,958	\$ 36,632	\$ 3,169	\$ 4,140	\$ 4,929	\$ 73,378
Comprised of:							
Cost	\$ 2,550	\$ 36,059	\$ 78,262	\$ 6,755	\$ 8,023	\$ 4,929	\$136,578
Accumulated depreciation	—	(14,101)	(41,630)	(3,586)	(3,883)	—	(63,200)

NOTE 7 INVESTMENTS

7.1 Investment in Associates

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 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.

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

Investments accounted for using the equity method are as follows:

	<u>TMT</u>	<u>Keli</u>	<u>GQD</u>	<u>Total</u>
Carrying value at January 1, 2022	\$ 2,302	\$ 9,760	\$ 1,697	\$ 13,759
Share of results in associates	287	2,803	428	3,518
Unrealized profit from sales to associates	(132)	—	—	(132)
Carrying value at September 30, 2022	\$ 2,457	\$ 12,563	\$ 2,125	\$ 17,145
Carrying value at January 1, 2021	\$ 1,966	\$ 7,173	\$ 906	\$ 10,045
Share of results in associates	439	2,587	791	3,817
Dividends received from associates	(103)	—	—	(103)
Carrying value at December 31, 2021	\$ 2,302	\$ 9,760	\$ 1,697	\$ 13,759

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:

<u>Financial Assets</u>	<u>September 30, 2022</u>	<u>December 31, 2021</u>
Fair value through profit or loss		
Equity securities ⁽¹⁾	\$ 713	\$ 2,056
Measured at amortized cost ⁽²⁾		
Cash and cash equivalents	\$ 123,903	\$ 89,037
Restricted cash	1,210	1,283
Accounts receivable	81,226	65,209
	<u>\$ 206,339</u>	<u>\$ 155,529</u>
Total financial assets	\$ 207,052	\$ 157,585

<u>Financial Liabilities</u>	September 30, 2022	December 31, 2021
Fair value through profit or loss		
Put option issued to non-controlling interest of Buss & Buss (derivative liability)	\$ 17,206	\$ 14,704
Measured at amortized cost ⁽²⁾		
Current:		
Bank advances and other short-term debt	15,219	6,502
Accounts payable and other accrued charges	60,785	94,201
Current portion of long-term debt ⁽³⁾	683	—
	<u>\$ 76,687</u>	<u>\$ 100,703</u>
Non-current:		
Long-term debt ⁽³⁾	\$ 5,809	\$ —
Total financial liabilities	<u>\$ 99,702</u>	<u>\$ 115,407</u>

Notes:

- (1) On June 30, 2021, Neo purchased equity securities in the amount of \$0.8 million. The equity securities are re-measured at each reporting period with the change in fair value recorded in finance cost or income. The fair value of these equity securities in the period ended December 31, 2021 increased by \$1.3 million (\$1.4 million increase in fair value net of foreign exchange loss of \$0.1 million). For the three months ended September 30, 2022, the fair value of these equity securities decreased by \$0.1 million (\$0.1 million decrease in fair value in addition to nominal foreign exchange loss). For the nine months ended September 30, 2022, the fair value of these equity securities decreased by \$1.3 million (\$1.2 million decrease in fair value in addition to foreign exchange loss of \$0.1 million).
- (2) Carrying value of financial instruments measured at amortized cost is a reasonable approximation of their fair value.
- (3) Estonian debt facility - see [Note 8.3.3](#)

8.1 Derivative liability

As at September 30, 2022, 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 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 on May 27, 2010. The SPA includes a call and a put option on shares of the remaining shareholder or 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 non-controlling interest, 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 put option liability is subsequently re-measured at each reporting period based on 90% of the fair value and the change in the put option liability is recorded in the consolidated statements of profit or loss.

For the three months ended September 30, 2022 and 2021, the change in the fair value of the derivative liability was an increase of \$1.2 million and \$0.7 million, respectively. For the nine months ended September 30, 2022 and 2021, the change in the fair value of the derivative liability was an increase of \$2.5 million and \$2.4 million, respectively. These changes were due to changes in fair value assumptions and were recorded as finance expense.

8.2 Financial assets and liabilities measured at fair value

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

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

The level 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 consolidated statement of financial position as at September 30, 2022, are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Financial Assets:			
Equity securities	\$ 713	\$ —	\$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	\$ —	\$ —	\$ 17,206

Neo's equity securities, classified in Level 1, is measured at FVTPL based on the stock price of the securities that is publicly available. For the three and nine months ended September 30, 2022, the fair value of the equity securities decreased by \$0.1 million (\$0.1 million as a result of decrease in share price and a nominal foreign exchange loss), and \$1.3 million (\$1.2 million as a result in decrease in share price and a foreign exchange loss of \$0.1 million), respectively, and was recorded as finance expense.

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, 2022.

8.3 Bank advances, short-term loan and debt

8.3.1 Chinese debt facility

In the third quarter of 2021, Magnequench (Tianjin) Co. Ltd., Magnequench International Trading (Tianjin) Co. Ltd., Jiangyin Jia Hua Advanced Material Resources Co. Ltd., Zibo Jiahua Advanced Material Resources Co. Ltd., Magnequench Magnetics (Chu Zhou) Co. Ltd., and Neo Jia Hua Advanced Materials (Zibo) Co. Ltd., each referred to as a ("**Borrower**") or collectively as ("**Chinese Subsidiaries**"), entered into a \$10.0 million Overdraft Facility ("**Tranche I**") and a \$20.0 million Import Facilities or a Multiple Currency Revolving Loan Facility ("**Tranche II**") with HSBC Bank (China) ("**Lender**"). Tranche I and Tranche II (collectively, the "**Facilities**") may be drawn down in accordance with the provisions of the Facilities to finance the working capital requirement of the Chinese Subsidiaries.

Tranche I can be drawn in Chinese Renminbi ("**RMB**") only. Interest is accrued on the daily overdraft balance at a rate equal to the China Loan Prime Rate ("**LPR**") plus 0.5% per annum and shall be payable monthly in arrears.

The Import Facilities under Tranche II can be drawn in either RMB or USD. If drawn in RMB, interest is accrued at a rate equal to the LPR plus 0.3% per annum. If drawn in USD, interest is accrued at a rate to be agreed upon by the Lender and Borrower. The term of a loan shall not exceed 150 days in any case.

The Multiple Currency Revolving Loan Facility under Tranche II can be drawn in RMB, USD or EUR provided that the USD equivalent of the aggregate outstanding amount shall in no time exceed the amount of this facility. If drawn in RMB, interest is accrued at a rate equal to the LPR plus 0.4% per annum. If drawn in USD or EUR, interest is accrued at a rate to be agreed by the Lender and the Borrower. The term of each loan will be 1, 3, or 6 months or such other periods as determined by the Lender and shall not exceed 12 months in any case.

The Facilities are cross-guaranteed by the Chinese Subsidiaries and by Neo and contain a number of financial covenants (which include a debt to equity ratio and that minimum equity and earnings before interest, income taxes, depreciation and amortization ("**EBITDA**") levels be maintained – as such terms are defined in the Facilities agreement) and commercial covenants, including specific terms relating to the timing, interest payable and maturity terms of each draw on these Facilities.

Neo and the relevant borrowing parties repaid \$1.5 million (RMB 10.0 million) in the three months ended September 30, 2022. The remaining balance drawn on the Facilities as at September 30, 2022, net of changes in foreign exchange, is \$14.5 million (RMB 104.0 million). Neo and the relevant borrowing parties are in compliance with all covenants in the Facilities agreement as at September 30, 2022.

8.3.2 German debt facility

As at September 30, 2022, Buss & Buss has a \$5.4 million (€5.5 million) revolving line of credit which can be drawn either in Euros or U.S. dollars. 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 \$0.24 million (€0.25 million) as well as a lien amounting to \$0.49 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.

Neo repaid \$0.2 million (€0.2 million) in the nine months ended at September 30, 2022. As at September 30, 2022, \$0.7 million was drawn from the revolving line of credit.

There are no financial covenants which need to be met.

8.3.3 Estonia debt facility

On December 23, 2021, Silmet entered into a \$6.8 million (€7.0 million) credit facility with OP Corporate Bank plc Eesti filiaal ("**OP Bank**") to finance working capital and other investments at Silmet. On December 29, 2021, part of the credit facility was assigned to a bank guarantee related to the disposal of naturally occurring radioactive materials ("**NORM**") residue, thus temporarily reducing the credit facility by \$2.2 million (€2.3 million) to a net \$4.6 million (€4.7 million) credit facility which can be drawn in Euros and accrues interest at a rate equal to the 6-month Euribor plus 1.95% per annum. On August 2, 2022, the OP Bank released the \$2.2 million (€2.3 million) from the bank guarantee and was drawn from the credit facility by Silmet for a total outstanding balance of \$6.8 million (€7.0 million), before any repayment.

As part of the facility agreement, Silmet has pledged certain security as collateral in favour of OP Bank, including a combined mortgage over certain real estate properties for \$8.8 million (€9.0 million), and certain other fixed assets for \$4.9 million (€5.0 million).

The facility contains a number of financial covenants, which include a debt service coverage ratio, an equity ratio, and that a maximum net debt to EBITDA ratio not be exceeded – as such terms are defined in the facility agreement. The financial covenants are tested semi-annually as of June 30 and December 31 each year.

Silmet repaid \$0.2 million (€0.2 million) and \$0.4 million (€0.3 million) in the three and nine months ended September 30, 2022, respectively. As at September 30, 2022, \$6.5 million (€6.7 million) remained drawn on the credit facility, and Silmet is in compliance with all covenants in the facility agreement. The current portion of this term debt facility as at September 30, 2022 was \$0.7 million, while \$5.8 million was classified as long-term. Please see [Note 19.5](#) for the scheduled repayment of this borrowing.

8.3.4 Export Development Canada credit facility

On August 16, 2022, Neo entered into a loan agreement (the "**Loan Agreement**") with Export Development Canada ("**EDC**") for a term loan of up to \$75.0 million (the "**Credit Facility**"), to be advanced in three tranches of \$25.0 million, to finance the relocation, expansion, and sustainability upgrades to one of its environmental emissions catalyst manufacturing facilities (the "**NAMCO Project**").

The Credit Facility matures five years from the date of the loan agreement, on August 16, 2027, with principal repayment beginning on August 16, 2024. Neo will repay to EDC the full principal amount of each outstanding loan as follows, each year on the anniversary of the date of the agreement:

Payment 1 (2023) – No principal repayment;

Payment 2 (2024) – 10% of the Borrowed Loan;

Payment 3 (2025) – 10% of the Borrowed Loan;

Payment 4 (2026) – 10% of the Borrowed Loan;

Payment 5 (Maturity Date) – all remaining amount necessary to repay the loan in full, including all payable principal, interests, fees and expenses.

The outstanding principal amount carries an interest rate equal to the secured overnight financing rate ("**SOFR**"), as administered by the Federal Reserve Bank of New York, plus an applicable margin. The interest is payable every three months, commencing on the borrowing date of the loan agreement.

Prior to drawing each of the three tranches, the Loan Agreement requires certain conditions to be fulfilled including detail engineering for the NAMCO Project, including all specifications, plans, documents and drawings that are issued for construction, erection and installation purposes in respect of the NAMCO Project as required by EDC, maintenance of cost performance relative to budget, disclosures related to environmental and social law compliance, and other certifications from management and third-party environmental monitoring consultants.

The Credit Facility is guaranteed by a number of Neo's Subsidiaries and contain a number of covenants (which include a maximum leverage ratio and debt service coverage ratio levels that should be maintained – as such terms are defined in the executed agreement), including specific terms relating to the timing and basis of interest payable, compliance with laws and regulations, financial statements, acquisitions, dividend payments or distributions to shareholders.

As at September 30, 2022, no amount was drawn from the Credit Facility.

8.3.5 Finance (cost) income, net

Finance (cost) income, net, for the three and nine months ended September 30, 2022 and the same period in 2021 consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Change in fair value of the option issued to non-controlling interest of Buss & Buss	\$ (1,245)	\$ (705)	\$ (2,502)	\$ (2,415)
Change in fair value of equity securities	(102)	1,746	(1,232)	1,746
Interest expense	(90)	(42)	(409)	(5)
Total	\$ (1,437)	\$ 999	\$ (4,143)	\$ (674)

NOTE 9 OPERATING SEGMENTS

The primary metric used to measure the financial performance of each operating segment is EBITDA before equity income (loss) in associates, other income (expense), foreign exchange (gain) loss, share and value-based compensation, impairment of assets, and other costs (recoveries) ("**Adjusted EBITDA**"), 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, 2022:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	\$ 67,402	\$ 47,658	\$ 31,567	\$ —	\$ 146,627	\$ —	\$ 146,627
Inter-segment revenue	—	4,573	—	—	4,573	(4,573)	—
Total revenue	\$ 67,402	\$ 52,231	\$ 31,567	\$ —	\$ 151,200	\$ (4,573)	\$ 146,627
Net Income (loss)	\$ 2,255	\$ (4,342)	\$ 2,598	\$ (5,975)	\$ (5,464)	\$ 1,652	\$ (3,812)
Finance (income) cost, net	(58)	177	1,308	10	1,437	—	1,437
Income tax (recovery) expense	1,924	(312)	2,148	15	3,775	—	3,775
Depreciation and amortization ("D&A") - COGS	859	962	458	—	2,279	—	2,279
D&A - SG&A	1,365	284	75	57	1,781	—	1,781
EBITDA	\$ 6,345	\$ (3,231)	\$ 6,587	\$ (5,893)	\$ 3,808	\$ 1,652	\$ 5,460

Reconciliation to Adjusted EBITDA:

EBITDA	\$ 6,345	\$ (3,231)	\$ 6,587	\$ (5,893)	\$ 3,808	\$ 1,652	\$ 5,460
Other (income) expense ⁽¹⁾	(86)	397	137	—	448	—	448
Foreign exchange loss (gain)	1,193	(1,217)	(993)	1,740	723	—	723
Equity income of associates	(332)	—	—	—	(332)	—	(332)
Share-based compensation ⁽²⁾	162	188	66	319	735	—	735
Impairments	—	—	—	—	—	—	—
Adjusted EBITDA ⁽³⁾	\$ 7,282	\$ (3,863)	\$ 5,797	\$ (3,834)	\$ 5,382	\$ 1,652	\$ 7,034
Capital expenditures	\$ 475	\$ 814	\$ 445	\$ —	\$ 1,734	\$ —	\$ 1,734

Notes:

- (1) Represents other expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents share-based compensation expense in respect of the Plan [\(Note 15\)](#) and the LTIP.
- (3) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

For the nine months ended September 30, 2022:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	\$ 219,828	\$ 174,781	\$ 86,521	\$ —	\$ 481,130	\$ —	\$ 481,130
Inter-segment revenue	—	14,463	—	—	14,463	(14,463)	—
Total revenue	\$ 219,828	\$ 189,244	\$ 86,521	\$ —	\$ 495,593	\$ (14,463)	\$ 481,130
Net Income (loss)	\$ 21,321	\$ 19,312	\$ 6,928	\$ (15,635)	\$ 31,926	\$ 1,654	\$ 33,580
Finance (income) cost, net	(42)	470	2,669	1,046	4,143	—	4,143
Income tax expense	7,630	2,874	5,220	47	15,771	—	15,771
D&A - COGS	2,640	2,983	1,422	—	7,045	—	7,045
D&A - SG&A	4,265	851	218	195	5,529	—	5,529
EBITDA	\$ 35,814	\$ 26,490	\$ 16,457	\$ (14,347)	\$ 64,414	\$ 1,654	\$ 66,068

Reconciliation to Adjusted EBITDA:

EBITDA	\$ 35,814	\$ 26,490	\$ 16,457	\$ (14,347)	\$ 64,414	\$ 1,654	\$ 66,068
Other (income) expense ⁽¹⁾	(229)	1,060	905	—	1,736	—	1,736
Foreign exchange loss (gain)	2,832	(2,391)	(2,536)	2,270	175	—	175
Equity income of associates	(3,518)	—	—	—	(3,518)	—	(3,518)
Share based compensation ⁽²⁾	485	551	191	646	1,873	—	1,873
Impairments	—	—	295	—	295	—	295
Other recoveries ⁽³⁾	—	—	—	(22)	(22)	—	(22)
Adjusted EBITDA ⁽⁴⁾	\$ 35,384	\$ 25,710	\$ 15,312	\$ (11,453)	\$ 64,953	\$ 1,654	\$ 66,607
Capital expenditures	\$ 2,736	\$ 6,877	\$ 1,485	\$ —	\$ 11,098	\$ —	\$ 11,098

Notes:

- (1) Represents other expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents share-based compensation expense in respect of the Plan [\(Note 15\)](#) and the LTIP.
- (3) Represents primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.
- (4) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

For the three months ended September 30, 2021:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	\$ 60,063	\$ 40,269	\$ 19,509	\$ —	\$ 119,841	\$ —	\$ 119,841
Inter-segment revenue	—	5,408	—	—	5,408	(5,408)	—
Total revenue	\$ 60,063	\$ 45,677	\$ 19,509	\$ —	\$ 125,249	\$ (5,408)	\$ 119,841
Net Income (loss)	\$ 5,348	\$ 6,611	\$ (515)	\$ (3,016)	\$ 8,428	\$ (292)	\$ 8,136
Finance (income) cost, net ..	(61)	(19)	782	(1,701)	(999)	—	(999)
Income tax expense	2,170	643	849	8	3,670	—	3,670
D&A - COGS	852	577	551	—	1,980	—	1,980
D&A - SG&A	1,464	287	66	91	1,908	—	1,908
EBITDA	\$ 9,773	\$ 8,099	\$ 1,733	\$ (4,618)	\$ 14,987	\$ (292)	\$ 14,695

Reconciliation to Adjusted EBITDA:

EBITDA	\$ 9,773	\$ 8,099	\$ 1,733	\$ (4,618)	\$ 14,987	\$ (292)	\$ 14,695
Other (income) expense ⁽¹⁾ ..	(80)	(6)	1,370	—	1,284	—	1,284
Foreign exchange loss (gain)	1,039	(86)	(412)	214	755	—	755
Equity income of associates ..	(288)	—	—	—	(288)	—	(288)
Share and value-based compensation ⁽²⁾	59	52	24	1,063	1,198	—	1,198
Other costs ⁽³⁾	—	—	—	6	6	—	6
Adjusted EBITDA ⁽⁴⁾	\$ 10,503	\$ 8,059	\$ 2,715	\$ (3,335)	\$ 17,942	\$ (292)	\$ 17,650
Capital expenditures	\$ 876	\$ 1,049	\$ 449	\$ —	\$ 2,374	\$ —	\$ 2,374

Notes:

- (1) Represents other expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents share-based compensation expense in respect of the Plan ([Note 15](#)) and the LTIP.
- (3) Represents primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.
- (4) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

For the nine months ended September 30, 2021:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	\$ 192,856	\$ 136,673	\$ 56,308	\$ —	\$ 385,837	\$ —	\$ 385,837
Inter-segment revenue	—	15,649	—	—	15,649	(15,649)	—
Total revenue	\$ 192,856	\$ 152,322	\$ 56,308	\$ —	\$ 401,486	\$ (15,649)	\$ 385,837
Net Income (loss)	\$ 24,937	\$ 18,765	\$ (333)	\$ (12,204)	\$ 31,165	\$ (2,385)	\$ 28,780
Finance (income) cost, net ..	(163)	(35)	2,612	(1,740)	674	—	674
Income tax expense	7,490	891	1,864	37	10,282	—	10,282
D&A - COGS	2,484	1,608	1,679	—	5,771	—	5,771
D&A - SG&A	4,492	862	192	252	5,798	—	5,798
EBITDA	\$ 39,240	\$ 22,091	\$ 6,014	\$ (13,655)	\$ 53,690	\$ (2,385)	\$ 51,305

Reconciliation to Adjusted EBITDA:

EBITDA	\$ 39,240	\$ 22,091	\$ 6,014	\$ (13,655)	\$ 53,690	\$ (2,385)	\$ 51,305
Other (income) expense ⁽¹⁾ ..	(300)	7,114	331	—	7,145	—	7,145
Foreign exchange loss (gain)	1,406	449	(306)	295	1,844	—	1,844
Equity income of associates ..	(1,564)	—	—	—	(1,564)	—	(1,564)
Share and value-based compensation ⁽²⁾	90	58	41	2,572	2,761	—	2,761
Other costs ⁽³⁾	—	—	—	772	772	—	772
Adjusted EBITDA ⁽⁴⁾	\$ 38,872	\$ 29,712	\$ 6,080	\$ (10,016)	\$ 64,648	\$ (2,385)	\$ 62,263
Capital expenditures	\$ 2,999	\$ 2,622	\$ 1,010	\$ —	\$ 6,631	\$ —	\$ 6,631

Notes:

- (1) Represents other expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.
- (2) Represents share-based compensation expense in respect of the Plan [\(Note 15\)](#) and the LTIP.
- (3) Represents primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.
- (4) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

As at September 30, 2022:

	<u>Magnequench</u>	<u>Chemicals & Oxides</u>	<u>Rare Metals</u>	<u>Corporate</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
Total assets	\$ 289,578	\$ 200,746	\$ 92,355	\$ 56,567	\$ 639,246	\$ (1,066)	\$ 638,180
Investment in equity method associates	17,145	—	—	—	17,145	—	17,145
Total liabilities	(48,581)	(56,642)	(31,447)	(18,946)	(155,616)	—	(155,616)

As at December 31, 2021:

	<u>Magnequench</u>	<u>Chemicals & Oxides</u>	<u>Rare Metals</u>	<u>Corporate</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
Total assets	\$ 308,306	\$ 166,265	\$ 79,621	\$ 42,610	\$ 596,802	\$ (2,720)	\$ 594,082
Investment in equity method associates	13,759	—	—	—	13,759	—	13,759
Total liabilities	(65,659)	(50,941)	(30,104)	(16,862)	(163,566)	—	(163,566)

The geographic distribution of Neo's revenue based on the location of its customers for the three and nine months ended September 30, 2022 and 2021 are summarized as follows:

<u>Revenue</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Asia:				
China	\$ 40,323	\$ 39,759	\$ 157,919	\$ 134,132
Japan	27,990	25,023	74,867	89,052
Thailand	5,806	7,110	22,858	20,898
South Korea	4,346	1,632	8,239	3,521
North America	28,663	16,165	85,267	47,769
Europe	34,306	27,047	117,730	80,434
Other	5,193	3,105	14,250	10,031
Total	\$ 146,627	\$ 119,841	\$ 481,130	\$ 385,837

Revenue from one significant customer accounts for \$18.6 million and \$61.5 million of Neo's total revenue for the three and nine months ended September 30, 2022, respectively, and \$17.9 million and \$65.2 million for the three and nine months ended September 30, 2021, respectively. Neo defines significant customers as those that generate 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,	
	2022	2021
Increase in assets:		
Accounts receivable	\$ (20,187)	\$ (17,154)
Inventories	(8,785)	(25,733)
Other assets	(3,989)	(10,855)
Decrease in liabilities:		
Accounts payable and other accrued charges	(30,753)	(7,218)
Other liabilities	(918)	2,030
Total net change	\$ (64,632)	\$ (58,930)

NOTE 11 COMMITMENTS AND CONTINGENCIES

11.1 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 variable prices. Neo believes that these contracts serve to reduce risk and does not anticipate that losses will be incurred on these contracts.

11.2 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, the People's Republic of China, and Estonia. 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 the following, 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, unsupported, 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 following: 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, the German Courts have ruled that certain of Neo Chemicals & Oxides (Europe) Ltd.'s ("**Neo C&O (Europe)**") products infringed four expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1 ("**846**"), European patent #0605274 ("**274**"), and European patent #0955267 B1 ("**267**"). Neo C&O (Europe) filed an appeal in the 846 infringement action, which is still pending. The judgments of infringement with respect to 984, 274 and 267, are final. Neo C&O (Europe) was ordered to provide information related to the calculation of damages, but as yet there has been no determination of damages in any of the German infringement lawsuits.

Neo C&O (Europe) challenged the validity of patents 984, 846, 274 and 267 before the German Federal Patent Court. Following litigation before the German Federal Patent Court, and subsequent appeals to the German Supreme Court, patents 984, 846, 274 and 267 were upheld subject to restrictions in scope. Neo C&O (Europe) also filed actions in the German Federal Patent Court challenging the validity of European patent #1527018 ("**018**") and European patent #2007682 ("**682**"). The German Federal Patent Court upheld the validity of 018 in restricted form. Both Rhodia and Neo have appealed this ruling and the appeals are still pending. On March 22, 2022, Neo C&O (Europe)'s lawsuit in the German Federal Patent Court challenging the validity of 682 was dismissed on the ground that it was filed prematurely. Neo C&O (Europe) has appealed the dismissal of its lawsuit to invalidate 682.

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed four unexpired patents: 018, 682, European Patent #1435338 B1 ("**338**") and European patent #2523907 ("**907**"). In September 2020, Neo C&O (Europe) was found to infringe 018 in Germany by the Düsseldorf Regional Court. Neo and Rhodia have both appealed this ruling, and the appeals are still pending. The Düsseldorf Regional Court stayed Rhodia's case alleging infringement of 682, pending the outcome of Neo's action before the German Federal Patent Court to invalidate 682. In September of 2021 the Court of Appeal remanded the case back to the Düsseldorf Regional Court to reconsider its order staying the 682 infringement proceeding. The Düsseldorf Regional Court has not yet ruled on Neo's motion for stay following the remand. The 907 action was initiated at the beginning of July 2020, but Rhodia dismissed the 907 action in March 2021.

In December 2017, the Regional Court of Mannheim (Germany) determined that certain of Neo C&O (Europe)'s products infringed patent 338, and an injunction prohibiting the sale of affected products into Germany was granted. Neo C&O (Europe) appealed the decision on infringement. In January 2019, the Federal Patent Court in Munich revoked the German designation of patent 338. Rhodia appealed this ruling, and on April 6, 2021, the German Federal Supreme Court reversed the judgment of the Federal Patent Court and upheld the validity of patent 338, subject to certain limitations in its scope. In December of 2021, the Higher Regional Court of Karlsruhe dismissed Neo's appeal in the infringement case and affirmed the Regional Court of Mannheim's ruling that Neo had infringed patent 338 in Germany. Neo has filed for leave to appeal this judgment to the German Federal Supreme Court.

In April 2018, the United Kingdom ("**UK**") High Court of Justice determined that certain of Neo C&O (Europe)'s products infringed the equivalent UK patent 338. Neo C&O (Europe) appealed the trial court judgment of infringement but in October of 2019 the judgment of infringement was affirmed. In 2020 Neo C&O (Europe) reached a confidential settlement with the plaintiffs, Rhodia Operations S.A.S. and Anan Kasai Co. Ltd., for some of the damage claims. A trial on the plaintiffs' remaining claims for damages took place in January and February 2022. On March 29, 2022, the Court ruled that the plaintiffs were not entitled to any damages for the remaining claims. The plaintiffs have been granted the right to appeal the trial court's judgment, and the appeal is pending.

On April 18, 2018, the Patent Reexamination Board of the State Intellectual Property Office of China ("**PRB**") ruled in favor of ZAMR, a Chinese subsidiary 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 of 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. In December 2020, the Beijing IP Court upheld the ruling of the PRB invalidating all claims associated with patent ZL 03817110.4. Rhodia Operations appealed the decision of the Beijing IP Court. On April 1, 2022, the Supreme People's Court upheld the ruling of the Beijing IP Court and the judgment invalidating patent ZL 03817110.4 is now final.

On September 26, 2018, the PRB again ruled in favor of ZAMR by invalidating all product claims associated with patent ZL 200710146613.6, held by Daiichi Kigenso Kagaku Kogyo Co. ("**DKKK**"). The PRB upheld the validity of Claim 4, which is a method claim. In May of 2021, DKKK and Rhodia Operations withdrew their suit alleging infringement of Claim 4. In December 2020, the Beijing IP Court upheld the ruling of the PRB invalidating claims 1 through 3 of patent ZL 200710146613.6. In September 2022, the Supreme People's Court upheld the ruling of the PRB.

In January 2019, the PRB ruled in favor of ZAMR by invalidating all patent claims associated with patent ZL 97195463.1. On February 28, 2019, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by Rhodia Operations and DKKK alleging infringement of patent ZL 97195463.1. Rhodia Operations and DKKK have appealed these decisions. In April 2020, the Beijing IP Court upheld the PRB's ruling that invalidated all patent claims. Rhodia Operations appealed this judgment to the Supreme People's Court of China and in November 2020, the Supreme People's Court of China affirmed the judgment of the Beijing IP Court, invalidating all claims associated with patent ZL 97195463.1. This final judgment precludes further litigation for alleged infringement of ZL 97195463.1.

On March 4, 2019, the PRB ruled in favor of ZAMR by invalidating all patent claims associated with patent ZL 02822106.0, which is equivalent to European Patent 338. Solvay Japan appealed this decision. In July 2021, the Beijing IP Court dismissed Solvay Japan's appeal and upheld the PRB's ruling that invalidated all patent claims associated with patent ZL 02822106.0. In January of 2022, Solvay Japan withdrew its appeal to the Supreme People's Court of China and the judgment of the Beijing IP Court invalidating all patent claims became final.

In October 2020, Rhodia Operations refiled a lawsuit, in the Ji'nan Intermediate Court, alleging ZAMR had infringed Chinese patent ZL 96196505.3. In 2015 Rhodia Operations had filed a similar lawsuit against ZAMR alleging infringement of the same patent before the Zibo Intermediate People's Court, but in December 2019 Rhodia Operations withdrew that lawsuit during the middle of trial. In August of 2021, the Ji'nan Intermediate Court ruled that ZAMR did not infringe ZL 96196505.3. Rhodia Operations has appealed the judgment of non-infringement, and the appeal is still pending.

In November of 2020 Rhodia Operations filed a lawsuit in Estonia against NPM Silmet OÜ alleging infringement of European Patent EP 3009403. This case has not yet been set for trial.

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
European patent 0863846 B1	Germany	} \$8.7 million
European patent 0735984 B1	Germany	
European patent 0605274 B1	Germany	
Chinese patent ZL 96196505.3	China	\$6.4 million
European Patent EP 3009403	Estonia	\$0.1 million
European & UK patents 1435338 B1	Germany	\$37.1 million (€38.0 million)
European & UK patents 1435338 B1	UK	Not specified
European patent 0955267	Germany	\$0.3 million (€0.3 million)
European patent 1527018	Germany	Not specified
European patent 2007682	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, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. 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 amounts 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, 2022	December 31, 2021
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 ⁽¹⁾	45,196,921	40,668,902
Total treasury shares	—	—

Notes:

- (1) On September 16, 2022, Neo completed a bought deal treasury offering during which Neo issued and sold from treasury an aggregate of 4,506,734 common shares, for net proceeds of approximately \$47.7 million (Gross proceeds of \$50.8 million, net of transaction costs of \$3.1 million).

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

12.1 Normal Course Issuer Bid

On June 1, 2021, Neo announced that the TSX had accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "Bid") for up to 2,111,758 of its issued and outstanding common 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. The Share Purchase Plan terminated on June 3, 2022.

For the three and nine months ended September 30, 2022, Neo did not repurchase or cancel any shares. There were no shares repurchased for the three months ended September 30, 2021. For the nine months ended September 30, 2021, Neo repurchased and canceled 3,400 shares for a nominal amount.

NOTE 13 EARNINGS PER SHARE

13.1 Weighted-average number of common shares - basic

The weighted average number of shares outstanding is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Common shares issued at beginning of period	40,681,902	37,868,942	40,668,902	37,460,390
Weighted average impact of:				
Issuance of common shares	687,068	44,333	244,305	281,280
Repurchase and cancellation of common shares under Normal Course Issuer Bid	—	—	—	(3,316)
Weighted average number of common shares for the period - basic	41,368,970	37,913,275	40,913,207	37,738,354

13.2 Weighted average number of common shares - diluted

The weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Weighted average number of common shares - basic	41,368,970	37,913,275	40,913,207	37,738,354
Dilutive effect of Stock Units	—	315,613	440,024	346,548
Weighted average number of common shares - diluted	41,368,970	38,228,888	41,353,231	38,084,902

13.3 Earnings per share

The calculation of basic and diluted earnings per share was based on net income attributable to equity holders of Neo for the nine months ended September 30, 2022, and September 30, 2021.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net (loss) income attributable to equity holders of Neo Performance Materials Inc. - basic and diluted	\$ (3,719)	\$ 8,036	\$ 33,238	\$ 28,442
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(Loss) Earnings per share - basic	\$ (0.09)	\$ 0.21	\$ 0.81	\$ 0.75
(Loss) Earnings per share - diluted	\$ (0.09)	\$ 0.21	\$ 0.80	\$ 0.75

For the three and nine months ended September 30, 2022, 1,158,228 (2021: 186,550) and 399,709 (2021: 186,550) stock options, respectively, were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

For the three and nine months ended September 30, 2022, 70,332 (2021: 47,270) and 38,820 (2021: 47,270) equity-settled RSUs, respectively, were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

For the three and nine months ended September 30, 2022, 215,155 (2021: 118,155) equity-settled PSUs were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

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 and nine months ended September 30, 2022, Neo had an income tax expense of \$3.8 million and \$15.8 million, respectively, on loss from operations before taxes of \$0.4 million and income from operations before taxes of \$45.8 million. For the three and nine months ended September 30, 2021, Neo had an income tax expense of \$3.7 million and \$10.3 million, respectively, on income from operations before taxes of \$11.5 million and \$37.5 million.

Neo's effective income tax rates were (1,023.0)% and 34.4% for the three and nine months ended September 30, 2022, respectively, and 31.9% and 27.4% for the three and nine months ended September 30, 2021, respectively.

The negative effective income tax rate for the three months ended September 30, 2022 is due to the smaller amount of operating income and resulting pre-tax loss during the quarter. Significant reconciling items increasing the tax

expense for the quarter include unrecognized deferred tax assets, foreign exchange translation of non-monetary assets and expenses not deductible for tax purposes.

NOTE 15 SHARE-BASED COMPENSATION

On September 12, 2017 OCM Neo Holdings (Cayman), L.P. ("**OCM**") formed Neo, a company incorporated in the province of Ontario, for the purpose of completing a Cayman Islands scheme of arrangement (the "**Arrangement**") with Neo Cayman Holdings Ltd. ("**Neo Cayman**") and a subsequent public offering of common shares of Neo. Neo Cayman's management incentive plan was assigned to Neo upon the completion of the Arrangement. This plan ("**Legacy Plan**") was comprised of Stock 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 of Neo or, in the case of the options, to purchase common shares of Neo.

In connection with the Arrangement, Neo has undertaken to issue common shares of Neo underlying the Stock Units, applying the exchange ratio applied in connection with the Arrangement. On October 13, 2017, Neo adopted a Stock Option Plan, in conjunction with the Initial Public Offering. On May 9, 2018, Neo adopted a long-term incentive plan (the "**LTIP**"). Neo granted Options under the Stock Option Plan, Deferred Share Units ("**DSUs**") under the Directors Share Unit Plan, and RSUs, PSUs and Additional PSUs under the LTIP.

The Special PSUs under the Legacy Plan and Additional PSUs under the LTIP, had all been canceled as at December 31, 2018 as the liquidity event condition was not met.

On May 28, 2021, an omnibus long-term incentive plan (the "**Plan**") was established. The Plan was formally approved at the Annual General and Special Meeting of Neo on June 29, 2021. No future awards will be granted under the Legacy Plan or LTIP.

During the nine months ended September 30, 2022, Neo granted 33,483 DSUs to its directors under the Plan. During the nine months ended September 30, 2022, Neo also granted 153,155 Options, 38,820 equity-settled RSUs, 97,000 equity-settled PSUs, 57,110 cash-settled RSUs, and 57,110 cash-settled PSUs under the Plan.

During the nine months ended September 30, 2022, 13,000 stock options have been exercised under the terms of the Legacy Plan. No other stock units were issued or vested under the terms of the Legacy Plan.

Equity-settled share-based compensation	Options	Weighted- average exercise price - Options	RSUs	PSUs
Outstanding, January 1, 2022	1,018,073	\$ 10.60	47,270	118,155
Granted	153,155	\$ 13.22	38,820	97,000
Exercised	(13,000)	\$ 9.37	(15,758)	—
Expired	—	\$ —	—	—
Outstanding, September 30, 2022	<u>1,158,228</u>	<u>\$ 10.96</u>	<u>70,332</u>	<u>215,155</u>
Exercisable, September 30, 2022	<u>860,318</u>	<u>\$ 10.01</u>	<u>—</u>	<u>—</u>
Weighted average exercise price, exercised during the period ended September 30, 2022	<u>\$ 10.01</u>			
Weighted average remaining contractual life, September 30, 2022	<u>4.58 years</u>		<u>2.05 years</u>	<u>1.70 years</u>

Cash-settled share-based compensation	RSUs	PSUs	DSUs
Outstanding, January 1, 2022	172,775	168,442	128,208
Granted	57,110	57,110	33,483
Exercised	(62,673)	(2,667)	—
Expired/Forfeited	(5,865)	(44,140)	—
Outstanding, September 30, 2022	<u>161,347</u>	<u>178,745</u>	<u>161,691</u>
Weighted average remaining contractual life, September 30, 2022 ..	<u>1.62 years</u>	<u>1.42 years</u>	<u>—</u>

The following table summarizes the inputs used in the calculation of the grant date fair values for each of the stock units issued under the Plan during 2022 and the LTIP during 2021:

	<u>Options</u>	<u>RSUs</u>	<u>PSUs</u>	<u>DSUs</u>
Key assumptions used for 2022 grants:				
Weighted average grant date fair value (per unit)	\$ 4.56	\$ 12.62	\$ 12.62	\$ 9.71
Dividend yield	2.5 %	— %	— %	— %
Expected volatility	43.0 %	— %	— %	— %
Risk-free interest rate	2.5 %	— %	— %	— %
Exercise price	\$ 13.22	\$ —	\$ —	\$ —
Forfeiture rate	— %	— %	— %	— %
Fair value of share-based compensation at grant date	\$ 698	\$ 1,211	\$ 1,945	\$ 325
	<u>Options</u>	<u>RSUs</u>	<u>PSUs</u>	<u>DSUs</u>
Key assumptions used for 2021 grants:				
Weighted average grant date fair value (per unit)	\$ 5.66	\$ 14.96	\$ 14.96	\$ 15.34
Dividend yield	2.1 %	— %	— %	— %
Expected volatility	45.0 %	— %	— %	— %
Risk-free interest rate	1.1 %	— %	— %	— %
Exercise price	\$ 15.34	\$ —	\$ —	\$ —
Forfeiture rate	— %	— %	— %	— %
Fair value of share-based compensation at grant date	\$ 1,056	\$ 1,728	\$ 2,788	\$ 325

The following table shows the share-based compensation expense recorded in the consolidated statements of profit or loss during the three and nine months ended September 30, 2022 and September 30, 2021:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Options	\$ 261	\$ 74	\$ 740	\$ 124
RSUs	323	399	669	1,036
PSUs	510	380	1,297	986
DSUs	(359)	345	(833)	615
Total	<u>\$ 735</u>	<u>\$ 1,198</u>	<u>\$ 1,873</u>	<u>\$ 2,761</u>

NOTE 16 RELATED PARTY TRANSACTIONS

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

Neo's related party transactions were made on terms equivalent to those that prevail in arm's length transactions. 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 process rare earth oxides into metals for inclusion in Magnequench Powders.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Purchase of goods and services from associates:				
TMT	\$ 1,453	\$ 628	\$ 2,528	\$ 1,586
Keli	20,514	18,321	65,318	52,774
GQD	164	2,810	12,933	13,373
Sales of goods and services to associates:				
TMT	1,283	2,629	6,668	6,499
Keli	—	1,814	1,374	4,294

16.2 Transactions with joint venture partners

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**").

Transactions between Neo and its joint venture partners are summarized in the table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Sale of goods to Toda	\$ 148	\$ 314	\$ 1,302	\$ 786
Purchase of goods from Qian Dong	6	202	1,645	1,283

16.3 Transactions with other related parties

Neo, through one of its subsidiaries in China, MQCZ, has occasionally sold products to Atatsu Co., Ltd. ("Atatsu") for resale to third party customers. Atatsu is controlled by members of MQCZ's key management personnel. For the three and nine months ended September 30, 2022, sales to Atatsu were \$0.7 million and \$1.0 million, respectively. For the three and nine months ended September 30, 2021, sales to Atatsu were \$0.1 million and \$0.4 million, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Sale of goods and services to related parties	\$ 2,745	\$ 4,900	\$ 12,346	\$ 13,420
Purchase of goods and services from related parties	22,137	21,961	82,424	69,016
	September 30, 2022		December 31, 2021	
Trade balances:				
from related parties	\$ 1,033		\$ 2,070	
due to related parties		(7,441)		(25,925)
Total	\$ (6,408)		\$ (23,855)	

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 compensations and share-based compensation expenses.

Neo's short-term compensations are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Directors	\$ 110	\$ 87	306	260
Key Executive Management	1,042	990	4,247	3,028
Total	\$ 1,152	\$ 1,077	\$ 4,553	\$ 3,288

Neo's share-based compensation expenses are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Directors	(359)	344	(833)	615
Key Executive Management	956	681	2,224	1,817
Total	\$ 597	\$ 1,025	\$ 1,391	\$ 2,432

NOTE 18 PROVISIONS

During the three and nine months ended September 30, 2022, Neo has recorded additional provisions of \$0.7 million and \$7.2 million, respectively, for the disposal of NORM and estimated potential damages for historical volumes related to ongoing patent litigation.

	September 30, 2022	December 31, 2021
Balance as at January 1, 2022 and 2021, respectively	20,687	6,829
Reclassified (to) from accounts payable and other accrued charges ⁽¹⁾	(2,391)	3,179
Provisions made, in the period	7,209	11,138
Payments made, in the period	(899)	(508)
Currency translation adjustment	(943)	49
Balance, at the end of respective periods	\$ 23,663	\$ 20,687
Current portion	\$ 643	\$ 5,560
Non-current portion	\$ 23,020	\$ 15,127

Notes:

- (1) In the second quarter of 2022, Silmet's NORM provision was reclassified to "Accounts payable and other accrued charges" on the Statement of Financial Position as the timing to dispose of the NORM at Silmet's facility in Estonia and settlement of the liability became certain. In August 2022, the NORM at the Estonia facility was removed and the liability was fully settled.

NOTE 19 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.

19.1 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.

19.2 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, 2022:

	Chinese Renminbi	Euro	USD	Thai Baht	Canadian Dollar	British Pound
Cash and cash equivalents	\$ 13,432	\$ 2,115	\$ 9,942	\$ 3,713	\$ 45,135	\$ 345
Accounts receivable	2,122	1,545	8,403	2,978	—	—
Income taxes receivable	—	—	—	—	—	—
Other receivable	119	2,334	—	522	85	—
Bank advances and other short-term debt	(532)	(658)	—	—	—	—
Current portion of long-term debt	—	(683)	—	—	—	—
Long-term debt	—	(5,809)	—	—	—	—
Accounts payable and accrued liabilities	(6,237)	(6,743)	(29)	(1,596)	(1,756)	(225)
Lease obligations	(147)	(31)	—	(16)	(190)	—
Income taxes payable	(1,153)	(3,824)	—	—	(576)	—
Net financial assets (liabilities)	\$ 7,604	\$(11,754)	\$18,316	\$ 5,601	\$ 42,698	\$ 120

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, 2022 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	\$ 76	\$ (117)	\$ 56	\$ 427	\$ 1
1% Weakening					
Net earnings before tax	(76)	117	(56)	(427)	(1)

The effect on profit or loss of a one-percentage point strengthening or weakening of U.S. dollar financial assets and liabilities held in non-U.S. dollar functional currency subsidiaries is a \$0.4 million gain or loss, respectively.

19.3 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, 2022, Neo had outstanding bank loans of \$6.5 million which bears interest at a rate equal to Euribor plus 1.95% per annum. Neo also had approximately \$15.2 million in bank advances and other short-term loans with short-term maturities at September 30, 2022. As a whole, Neo's exposure to interest rate risk is immaterial.

19.4 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 calculates a loss allowance using the ECL impairment model and the gross carrying amount of accounts receivable generally represents the maximum credit exposure. As at September 30, 2022, the loss allowance was approximately \$0.5 million. The estimated credit losses are included in selling, general and administrative expenses in the consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose 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, 2022, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

19.5 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 20](#). 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, 2022:

<u>Financial liabilities</u>	<u>1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>Beyond 5 years</u>	<u>Total</u>
Bank advances and other short-term debts	\$ 15,219	\$ —	\$ —	\$ —	\$ 15,219
Accounts payable and other accrued charges	60,785	—	—	—	60,785
Derivative liability ⁽¹⁾	17,206	—	—	—	17,206
Long-term debt ⁽²⁾	683	1,367	4,442	—	6,492
Provisions	643	23,020	—	—	23,663
Lease obligations	1,082	1,063	53	27	2,225
Other liabilities	364	1,067	67	201	1,699
Total	\$ 95,982	\$ 26,517	\$ 4,562	\$ 228	\$ 127,289

Notes:

- (1) The fair value of the put option on shares of the remaining shareholder of Buss & Buss
- (2) Estonian credit facility - see [Note 8.3.3](#)

NOTE 20 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, and
- to provide an adequate return to its shareholders;

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 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: 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 21 SUBSEQUENT EVENTS

21.1 Grant from the Government of Estonia

On November 9, 2022, Neo announced it has been awarded a grant of up to \$18.3 million (€18.7 million) from the Government of Estonia under Europe's Just Transition Fund ("**JTF**") for eligible project costs of up to \$95.7 million (€98 million). The terms of the award are governed under the Government of Estonia's regulations on general conditions for granting and using funds from the operational program of the EU cohesion and internal security policy funds for the period 2021-2027 and related regulations, and includes factors such as total eligible costs incurred, and employment created.

21.2 Dividends payable to equity holders of Neo

On November 10, 2022, the Board of Directors declared a quarterly dividend of Cdn \$0.10 per common share payable in cash on December 29, 2022, to common shareholders of record at the close of business on December 20, 2022.