NEO PERFORMANCE MATERIALS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2023

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

	September 30, 2023	December 31, 2022
ASSETS		
Current		
Cash and cash equivalents	113,419	147,491
Restricted cash	3,207	1,179
Accounts receivable	71,017	81,409
Inventories (Note 5)	197,173	212,702
Income taxes receivable	1,080	355
Assets held for sale (Note 6)	66	—
Other current assets	21,106	23,279
Total current assets	**407,068**	**466,415**
Property, plant and equipment (Note 6)	96,032	75,767
Intangible assets	38,571	42,984
Goodwill	64,023	66,042
Investments (Note 7)	16,942	16,363
Deferred tax assets	7,707	6,956
Other non-current assets	1,184	1,933
Total non-current assets	**224,459**	**210,045**
Total assets	**$ 631,527**	**$ 676,460**
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt (Note 9)	—	17,288
Accounts payable and other accrued charges	70,303	69,093
Income taxes payable	9,846	10,033
Provisions (Note 19)	1,200	1,369
Lease obligations	1,500	1,264
Derivative liability (Note 8.1.1)	36,492	28,570
Current portion of long-term debt (Note 9)	2,406	747
Other current liabilities	671	278
Total current liabilities	**122,418**	**128,642**
Long-term debt (Note 9)	22,844	29,885
Employee benefits	454	489
Derivative liability (Note 8.1.2)	1,858	—
Provisions (Note 19)	24,967	23,604
Deferred tax liabilities	16,108	13,942
Lease obligations	3,259	813
Other non-current liabilities	3,325	1,442
Total non-current liabilities	**72,815**	**70,175**
Total liabilities	**195,233**	**198,817**
Non-controlling interest	2,906	3,193
Equity attributable to equity holders of Neo Performance Materials Inc.	433,388	474,450
Total equity	**436,294**	**477,643**
Total liabilities and equity	**$ 631,527**	**$ 676,460**

Commitments and contingencies (Note 12)
Subsequent events (Note 23)

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,	
	2023	**2022**	**2023**	**2022**
Revenues	136,917	146,627	442,877	481,130
Cost of sales				
Cost excluding depreciation and amortization	106,255	120,137	355,465	356,249
Depreciation and amortization	2,674	2,279	7,210	7,045
Gross profit	27,988	24,211	80,202	117,836
Expenses				
Selling, general and administrative	13,688	13,781	44,670	42,296
Share-based compensation (Note 16)	1,024	735	1,792	1,873
Depreciation and amortization	1,794	1,781	5,374	5,529
Research and development	4,523	5,675	11,729	15,956
Impairment of assets	—	—	—	295
	21,029	21,972	63,565	65,949
Operating income	**6,959**	**2,239**	**16,637**	**51,887**
Other income (expense)	1,011	(448)	362	(1,736)
Finance income (cost), net	648	(1,437)	(7,449)	(4,143)
Foreign exchange loss	(190)	(723)	(1,432)	(175)
Income (loss) from operations before income taxes and equity (loss) income of associates	8,428	(369)	8,118	45,833
Income tax expense (Note 15)	(4,124)	(3,775)	(11,722)	(15,771)
Income (loss) from operations before equity (loss) income of associates	4,304	(4,144)	(3,604)	30,062
Equity (loss) income of associates (net of income tax) (Note 7)	(1,195)	332	(3,658)	3,518
Net income (loss)	**$ 3,109**	**$ (3,812)**	**$ (7,262)**	**$ 33,580**
Attributable to:				
Equity holders of Neo Performance Materials Inc.	$ 3,069	$ (3,719)	$ (7,075)	$ 33,238
Non-controlling interest	40	(93)	(187)	342
	$ 3,109	**$ (3,812)**	**$ (7,262)**	**$ 33,580**
Earnings (loss) per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic (Note 14)	$ 0.07	$ (0.09)	$ (0.16)	$ 0.81
Diluted (Note 14)	$ 0.07	$ (0.09)	$ (0.16)	$ 0.80

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,	
	2023	**2022**	**2023**	**2022**
Net income (loss) for the period	$ 3,109	$ (3,812)	$ (7,262)	$ 33,580
Other comprehensive loss:				
Item that is or may be reclassified subsequently to profit or loss:				
Currency translation adjustment	(947)	(11,623)	(8,578)	(22,070)
Other comprehensive loss for the period	**(947)**	**(11,623)**	**(8,578)**	**(22,070)**
Total comprehensive income (loss) for the period	**$ 2,162**	**$ (15,435)**	**$ (15,840)**	**$ 11,510**
Attributable to:				
Equity holders of Neo Performance Materials Inc.	2,130	(15,230)	(15,593)	11,373
Non-controlling interest	32	(205)	(247)	137
	$ 2,162	**$ (15,435)**	**$ (15,840)**	**$ 11,510**

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, 2023	2022
Operating activities		
Net (loss) income for the period	$ (7,262)	$ 33,580
Add (deduct) items not affecting cash:		
Depreciation and amortization	12,584	12,574
Share-based compensation (Note 16)	1,792	1,873
Provisions (Note 19)	1,642	7,209
Change in pension liability	(35)	(53)
Finance costs, net	7,449	4,143
Equity loss (income) of associates, net of income tax (Note 7)	3,658	(3,518)
Loss on disposal of assets	435	215
Gain on loss of control of investment (Note 7)	(19)	—
Income tax expense (Note 15)	11,722	15,771
Foreign exchange loss (gain)	1,443	(784)
Impairment of assets	—	295
Other	(1,233)	(388)
Net change in non-cash working capital balances related to operations (Note 11)	37,388	(64,632)
Payments made to settle provisions (Note 19)	(122)	(899)
Income taxes paid, net of income taxes recovered	(11,321)	(8,847)
Interest received (paid), net of interest paid (received)	892	(392)
Cash provided by (used in) operating activities	**$ 59,013**	**$ (3,853)**
Investing activities		
Additions of property, plant and equipment (Note 6)	(17,390)	(10,988)
Additions of intangible assets	(14)	(110)
Acquisition of business, net of cash acquired (Note 22)	(11,606)	—
Investment in associates (Note 7)	(4,806)	—
Dividends received from associates	332	—
Increase in restricted cash	(2,044)	—
Cash used in investing activities	**$ (35,528)**	**$ (11,098)**
Financing activities		
(Decrease) increase in bank advances and other short-term debt, net	(17,347)	10,459
Proceeds from issuance of common shares from treasury	—	47,728
Dividends paid to equity holders of Neo Performance Materials Inc.	(10,061)	(9,861)
Share-based compensation paid	(487)	(847)
Proceeds from long-term debt	—	7,286
Repayment of long-term debt	(8,280)	(358)
Repurchase of common shares under NCIB (Note 13)	(16,684)	—
Lease payments	(1,638)	(1,127)
Dividends paid to non-controlling interest	(40)	—
Other financing activities	(93)	54
Cash (used in) provided by financing activities	**$ (54,630)**	**$ 53,334**
Effect of exchange rate changes on cash and cash equivalents	(2,927)	(3,517)
Cash (used) provided during the period	**(34,072)**	**34,866**
Cash and cash equivalents, beginning of period	147,491	89,037
Cash and cash equivalents, end of period	**$ 113,419**	**$ 123,903**

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									
	Number	Amount	Retained (Deficit) Earnings	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains, net of tax	Accumulated Other Comprehensive Loss	Equity Attributable to Equity Holders of NPM Inc.	Non-Controlling Interest	Equity
Balance - January 1, 2023	**45,196,921**	**$ 45**	**$ (6,707)**	**$ 490,803**	**$ (11,144)**	**$ 1,453**	**$ (9,691)**	**$ 474,450**	**$ 3,193**	**$ 477,643**
Net loss	—	—	(7,075)	—	—	—	—	(7,075)	(187)	(7,262)
Other comprehensive loss	—	—	—	—	(8,518)	—	(8,518)	(8,518)	(60)	(8,578)
Total comprehensive loss	—	—	(7,075)	—	(8,518)	—	(8,518)	(15,593)	(247)	(15,840)
Share-based compensation	—	—	—	1,369	—	—	—	1,369	—	1,369
Dividends paid to equity holders of Neo Performance Materials Inc. (Cdn $0.10 per common share)	—	—	(10,061)	—	—	—	—	(10,061)	—	(10,061)
Dividend distributions to non-controlling interest	—	—	—	—	—	—	—	—	(40)	(40)
Shares repurchased and canceled under Normal Course Issuer Bid (Note 13)	(2,585,940)	(3)	—	(16,681)	—	—	—	(16,684)	—	(16,684)
Issuance of common shares on stock-based awards	16,611	—	—	(93)	—	—	—	(93)	—	(93)
	(2,569,329)	(3)	(10,061)	(15,405)	—	—	—	(25,469)	(40)	(25,509)
Balance - September 30, 2023	**42,627,592**	**$ 42**	**$ (23,843)**	**$ 475,398**	**$ (19,662)**	**$ 1,453**	**$ (18,209)**	**$ 433,388**	**$ 2,906**	**$ 436,294**
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 (loss)	—	—	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. (Cdn $0.10 per common share)	—	—	(9,861)	—	—	—	—	(9,861)	—	(9,861)
Issuance of common shares on stock-based awards	21,285	—	—	33	—	—	—	33	—	33
Issuance of common shares from treasury	4,506,734	4	—	47,724	—	—	—	47,728	—	47,728
	4,528,019	4	(9,861)	50,395	—	—	—	40,538	—	40,538
Balance - September 30, 2022	**45,196,921**	**$ 45**	**$ 4,124**	**$ 490,190**	**$ (15,831)**	**$ 1,008**	**$ (14,823)**	**$ 479,536**	**$ 3,028**	**$ 482,564**

See accompanying notes

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.

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 1,870 employees and has a global platform that includes 10 manufacturing facilities located in China, the United States ("**U.S.**"), Germany, Canada, Estonia, the United Kingdom ("**UK**") and Thailand 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: motors used in various automotive applications for hybrid, electric, and internal combustion engine vehicles; micro motors for household applications like vacuum cleaners, refrigerators, hair dryers, air conditioners and residential heating and cooling circulation pumps; industrial and other sensors; and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

On April 19, 2023, Neo, through its subsidiary in the UK, Neo Ventures Europe Limited ("**NVEL**"), completed its acquisition of 90% of the outstanding share capital of SG Technologies Group Limited and its wholly owned subsidiaries (collectively referred to as "**SGTec**"). For further details of this acquisition, see Note 22.

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.

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 the disclosures required by IFRS Accounting Standards as 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, 2022. The significant accounting policies disclosed in Note 4 of Neo's audited annual financial statements for the year ended December 31, 2022 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 9, 2023.

Significant management judgments in applying accounting policies, estimates and assumptions

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. The significant management judgment in applying accounting policies, estimates and assumptions disclosed in Note 4 of Neo's audited annual financial statements for the year ended December 31, 2022 have been applied consistently in the preparation of these interim condensed consolidated financial statements, other than for the change noted below.

Business combination – SGTec

On initial recognition, the identifiable assets and liabilities acquired and the consideration paid, including any contingent consideration, were recorded at the date of acquisition at their respective fair values. Management used estimates about future cash flows and discount rates in estimating these fair values. In accordance with IFRS 3 *Business Combinations,* Neo has one year to finalize the measurement of the assets and liabilities acquired, and the consideration paid. Any measurement changes during this time would affect goodwill or a bargain purchase gain. Refer to Note 22 for further details.

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 International Accounting Standard ("**IAS**") 34 - *Interim Financial Reporting,* requires the use of certain accounting estimates. It also requires management to exercise judgment in applying Neo's accounting policies.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS

4.1 Neo adopted the following accounting standards and amendments to accounting standards during the period ended September 30, 2023:

4.1.1 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. The amendments were adopted by Neo on January 1, 2023.

The amendment did not have a material impact on the interim condensed consolidated financial statements.

4.1.2 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. The amendments were adopted by Neo on January 1, 2023.

The amendments did not have a material impact on the interim condensed consolidated financial statements.

4.1.3 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. The amendments were adopted by Neo on January 1, 2023 and the amendments did not have a material impact on the interim condensed consolidated financial statements.

4.2 The following are new accounting pronouncements or amendments that have been issued by the IASB but have not yet been adopted by Neo as at September 30, 2023:

4.2.1 Non-Current Liabilities with Covenants (Amendments to IAS 1)

In October 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1) to clarify how covenants with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments are effective for annual periods beginning on or after January 1, 2024. Early adoption is permitted.

4.2.2 Lack of Exchangeability (Amendments to IAS 21)

In August 2023, the IASB issued Lack of Exchangeability (Amendments to IAS 21 - The Effects of Changes in Foreign Exchange Rates) to provide guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not. The amendments are effective for reporting periods beginning on or after 1 January 2025. Early adoption is permitted.

Neo does not anticipate that the above-mentioned amendments will have a material impact on its interim condensed 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, 2023	December 31, 2022
Raw materials	$ 78,683	$ 58,426
Work-in-progress	42,462	55,618
Finished goods	70,234	91,621
Supplies	5,794	7,037
Total	**$ 197,173**	**$ 212,702**

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

For the three months ended September 30, 2023, a total of $105.3 million of inventories was included in cost of sales compared to $118.1 million for the three months ended September 30, 2022. These included $7.6 million of change in provisions for inventories in the three months ended September 30, 2023 and $8.0 million of change in provisions for inventories in the three months ended September 30, 2022.

For the nine months ended September 30, 2023, a total of $349.1 million of inventories was included in cost of sales compared to $352.6 million for the nine months ended September 30, 2022. These included $3.3 million of change in provisions for inventories in the nine months ended September 30, 2023 and $8.7 million of change in provisions for inventories in the nine months ended September 30, 2022.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	Land	Building & improvements	Machinery & Equipment	Right-of-use Assets	Office equipment	Construction in Progress (net of transfer)	Total
As at January 1, 2023							
Cost	$ 2,550	$ 35,091	$ 78,490	$ 11,414	$ 8,055	$ 11,102	$146,702
Accumulated depreciation	—	(15,819)	(45,924)	(4,972)	(4,220)	—	(70,935)
Opening net book value as at January 1, 2023	**$ 2,550**	**$ 19,272**	**$ 32,566**	**$ 6,442**	**$ 3,835**	**$ 11,102**	**$ 75,767**
Additions due to business combination (Note 22)	—	8,194	1,013	1,546	600	605	11,958
Additions of property, plant, and equipment (1)	687	1,205	716	—	448	14,334	17,390
Additions of right-of-use assets	—	—	—	2,225	—	—	2,225
Write-offs, net of cost and accumulated depreciation	—	—	(421)	(14)	—	—	(435)
Transfers	—	121	3,225	—	(1,123)	(2,223)	—
Reclassified to Assets Held for Sale (2)	—	(19)	(37)	(69)	—	—	(125)
Currency translation adjustments	—	(425)	(925)	(54)	(45)	(23)	(1,472)
Depreciation expense	—	(1,308)	(5,898)	(1,425)	(645)	—	(9,276)
Closing net book value as at September 30, 2023	**$ 3,237**	**$ 27,040**	**$ 30,239**	**$ 8,651**	**$ 3,070**	**$ 23,795**	**$ 96,032**
Comprised of:							
Cost	$ 3,237	$ 43,777	$ 94,584	$ 14,739	$ 8,030	$ 23,795	$188,162
Accumulated depreciation	—	(16,737)	(64,345)	(6,088)	(4,960)	—	(92,130)

Notes:

(1) For the nine months ended September 30, 2023, $6.9 million (RMB 48.5 million) was included in Construction in Progress ("**CIP**") as part of the planned upgrade, expansion, and relocation of Neo's environmental emissions catalyst production facility, Neo Jia Hua Advanced Materials (Zibo) Co., Ltd. ("**NAMCO**"), a subsidiary of Neo. Additionally, $2.0 million in interest expense relating to the Export Development Canada ("**EDC**") facility was capitalized in CIP in accordance with IAS 23 *Borrowing Costs* for the nine months ended September 30, 2023.

(2) On August 3, 2023, Neo Rare Metals (Korea) Inc. ("**NRM Korea**") entered into an agreement with a non-related party ("**Buyer**"), to sell its property, plant and equipment and transfer its land lease to the Buyer. The completion of the sale is contingent on the transfer of the land lease which is expected to be completed in November 2023. Management determined that all criteria for Assets Held for Sale under IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* were met in June 2023 and therefore NRM Korea's $0.1 million of Property,

Plant and Equipment was transferred to Assets Held for Sale in June 2023 along with $0.1 million of lease liabilities that will be assumed by the Buyer once the sale is complete.

	Land	Building & improvements	Machinery & Equipment	Right-of-use Assets	Office equipment	Construction in Progress (net of transfer)	Total
As at January 1, 2022							
Cost	$ 2,550	$ 36,059	$ 78,262	6,755	$ 8,023	$ 4,929	$136,578
Accumulated depreciation	—	(14,101)	(41,630)	(3,586)	(3,883)	—	(63,200)
Opening net book value as at January 1, 2022	**$ 2,550**	**$ 21,958**	**$ 36,632**	**$ 3,169**	**$ 4,140**	**$ 4,929**	**$ 73,378**
Additions of property, plant, and equipment	—	24	940	—	479	11,549	12,992
Additions of right-of-use assets	—	—	—	5,065	—	—	5,065
Write-offs, net of cost and accumulated depreciation	—	—	(242)	(39)	(79)	—	(360)
Transfers	—	665	3,817	—	743	(5,225)	—
Currency translation adjustments	—	(912)	(1,423)	(116)	(203)	(151)	(2,805)
Impairment	—	—	(295)	—	—	—	(295)
Depreciation expense	—	(2,463)	(6,863)	(1,637)	(1,245)	—	(12,208)
Closing net book value as at December 31, 2022	**$ 2,550**	**$ 19,272**	**$ 32,566**	**$ 6,442**	**$ 3,835**	**$ 11,102**	**$ 75,767**
Comprised of:							
Cost	$ 2,550	$ 35,091	$ 78,490	$ 11,414	$ 8,055	$ 11,102	$146,702
Accumulated depreciation	—	(15,819)	(45,924)	(4,972)	(4,220)	—	(70,935)

NOTE 7 INVESTMENTS

7.1 Investments 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 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.

7.2 Investment in Special Purpose Entity

On August 22, 2022, Neo and Hudson Resources Inc. ("**Hudson**") entered into a binding agreement ("**Agreement**") whereby Neo would acquire from Hudson a mineral exploration license ("**License**") covering a portion of 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 subsequently assigned its rights under the Agreement to Neo North Star Resources Inc. ("**NNSR**"), a special-purpose entity ("**SPE**") established to fund the purchase of the License and the exploration of the Project. NNSR is partly-owned by Neo and three other third-party investors.

On April 19, 2023, NNSR completed its first equity financing and received funds from Neo and three other third-party investors. Upon completion of the first round of equity financing, Neo held a 56.5% ownership interest in NNSR.

On June 21, 2023, NNSR completed its second equity financing and received additional funds from Neo and a third-party investor. Upon completion of the second round of equity financing, Neo's ownership interest in NNSR decreased to 43.7%. This, together with the loss of a board seat, resulted in a loss of control, as is defined in IFRS 10 *Consolidated Financial Statements*, and therefore Neo derecognized the carrying value of the net assets of NNSR and recognized the fair value of its retained interest in the SPE, as an associate, as Neo retains significant influence over NNSR. Subsequent to the derecognization of NNSR, Neo accounts for its investment in NNSR using the equity method in accordance with IAS 28 *Investment in Associates and Joint Ventures*.

The summary of the assets and liabilities derecognized, the recognition of the fair value of Neo's investment in NNSR, and the resulting gain upon deconsolidation is as follows:

Non-current assets	$	(5,461)
Current liabilities		294
Non-controlling interest		2,186
Less: cash contribution resulting in loss of control		(1,500)
Net assets derecognized		(4,481)
Investment in NNSR		4,500
Gain on loss of control	**$**	**19**

Of this nominal gain, a small portion was attributable to the gain on measuring the retained investment in the former subsidiary at its fair value on the date control was lost.

7.3 Summary of Investments Accounted for Using the Equity Method

Investments accounted for using the equity method are as follows:

	Country of Incorporation or Registration	**Percentage Share Holdings**
Keli	China	25%
TMT	China	33%
GQD	Thailand	20%
NNSR	United States	44%

	TMT		Keli		GQD		NNSR		Total	
Carrying value as at January 1, 2023	$	2,373	$	11,760	$	2,230	$	—	$	16,363
Share of results in associates		80		(3,072)		487		(1,153)		(3,658)
Unrealized profit from sales to associates		(237)		—		—		—		(237)
Dividends received from associates		—		—		(332)		—		(332)
Investment in associates		—		—		306		4,500		4,806
Carrying value as at September 30, 2023	**$**	**2,216**	**$**	**8,688**	**$**	**2,691**	**$**	**3,347**	**$**	**16,942**
Carrying value as at January 1, 2022	$	2,302	$	9,760	$	1,697	$	—	$	13,759
Share of results in associates		250		2,000		533		—		2,783
Unrealized profit from sales to associates		(179)		—		—		—		(179)
Investment in associates		—		—		—		—		—
Carrying value as at December 31, 2022	**$**	**2,373**	**$**	**11,760**	**$**	**2,230**	**$**	**—**	**$**	**16,363**

NOTE 8 CATEGORIES OF FINANCIAL INSTRUMENTS

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

Financial Assets	September 30, 2023		December 31, 2022	
Fair value through profit or loss				
Equity securities [(1)]	$	470	$	902
Measured at amortized cost [(2)]				
Cash and cash equivalents:				
Cash		113,419		139,962
Short-term deposits [(3)]		—		7,529
Total cash and cash equivalents		113,419		147,491
Restricted cash		3,207		1,179
Accounts receivable		71,017		81,409
	$	187,643	$	230,079
Total financial assets	**$**	**188,113**	**$**	**230,981**

Financial Liabilities	September 30, 2023		December 31, 2022	
Fair value through profit or loss				
Put option issued to non-controlling interest of Buss & Buss (derivative liability)	$	36,492	$	28,570
Put option issued to non-controlling interest of SGTec (derivative liability) (Note 22)		1,858		—
Contingent consideration liability (Note 22)		2,487		—
	$	40,837	$	28,570
Measured at amortized cost (2)				
Current:				
Bank advances and other short-term debt		—		17,288
Accounts payable and other accrued charges		70,303		69,093
Current portion of long-term debt (4)		2,406		747
	$	72,709	$	87,128
Non-current:				
Long-term debt (5)	$	22,844	$	29,885
Total financial liabilities	**$**	**136,390**	**$**	**145,583**

Notes:

(1) The equity securities are re-measured at each reporting period with the change in fair value recorded in finance cost or income. For the nine months ended September 30, 2023, the fair value of these equity securities decreased by $0.4 million (decreased by $1.3 million for the nine months ended September 30, 2022)

(2) The carrying values of the financial instruments, current and non-current, measured at amortized cost are a reasonable approximation of their fair values.

(3) Short-term deposits have a maturity of three months or less.

(4) Current portion of tranche 1 of the EDC credit facility term loan due for repayment in August 2024.

(5) Tranche 1 of the EDC credit facility term loan (see Note 9.4) as well as SGTec's two term loan facilities (see Note 9.5).

8.1 Derivative liabilities

8.1.1 Buss & Buss Spezialmetalle GmbH

As at September 30, 2023, 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 put option liability is subsequently re-measured at each reporting period end date based on 90% of the fair value and the change in the put option liability is recorded in the condensed consolidated statements of profit or loss.

For the three and nine months ended September 30, 2023, the change in the fair value of the derivative liability was a decrease of $0.7 million and an increase of $7.9 million, respectively (see Note 21). The fair value of the derivative is based on the best market information available to management, including assumptions regarding the forecasted pricing of the advanced industrial materials Buss & Buss produces. The main driver of the change period-over-period was due to changes in these assumptions, primarily the discount rate. For the three and nine months ended September 30, 2022, the change in the fair value of the derivative liability were increases of $1.2 million and $2.5 million, respectively.

8.1.2 SGTec

On April 19, 2023, Neo, through its subsidiary in the UK, NVEL, completed its acquisition of 90% of the outstanding share capital of SGTec. The remaining 10% of SGTec will continue to be owned by the members of SGTec's senior management team (the "**Retained Shareholders**"). Simultaneous with the closing of the acquisition, NVEL entered into a Shareholders' Agreement with the Retained Shareholders of SGTec, which includes a call option and a put option on the remaining 10% of SGTec that continues to be owned by the Retained Shareholders ("**Retained Shares**"). NVEL has a call option, exercisable at the market value of the Retained Shares at the date of exercise, against any defaulting shareholder while the Retained Shareholders have a put option, exercisable at the market value of the Retained Shares at the date of exercise after five years from the date of closing. The put can only be exercised during the 90-day period from April 20, 2028 to July 20, 2028. After this period, the put expires if not exercised. The put option forms part of the net assets acquired in the business combination and has been accounted for using the anticipated-acquisition method, therefore, non-controlling interest has not been recognized. See Note 22.

This put option was fair valued as at April 19, 2023 to be $1.9 million and was recorded as a Derivative liability in the statement of financial position. This is subsequently re-measured at the reporting period end date and the change in the put option liability was recorded in the condensed consolidated statements of profit or loss.

8.2 Financial assets and liabilities measured at fair value

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

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

The level in which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the condensed consolidated statement of financial position as at September 30, 2023, are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Financial Assets:			
Equity securities	$ 470	$ —	$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	$ —	$ —	$ 36,492
Put option issued to non-controlling interest of SGTec	$ —	$ —	1,858
Contingent consideration liability	$ —	$ —	$ 2,487

Neo's investment in equity securities, classified in Level 1, is measured at FVTPL based on the stock price of the securities that is publicly available. The following table shows the change in the fair value of the equity securities as at September 30, 2023:

	September 30, 2023	December 31, 2022
Opening balance -- January 1, 2023 and 2022, respectively	$ 902	$ 2,056
Change in fair value	(415)	(1,075)
Foreign exchange loss	(17)	(79)
Ending balance	**$ 470**	**$ 902**

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 may 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, 2023.

For further discussion of financial liabilities measured at amortized cost specifically for bank advances and other short and long-term debt, see Note 9.

NOTE 9 BANK ADVANCES, SHORT-TERM DEBT, AND LONG-TERM DEBT

9.1 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. ("**NAMCO**") (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 requirements of the Chinese Subsidiaries.

During the nine months ended September 30, 2023, $9.2 million (RMB 64.2 million) was repaid by the Chinese subsidiaries. As a result of the repayment, there was no balance outstanding on the Facilities as at September 30, 2023 (December 31, 2022: $9.2 million (RMB 64.2 million)).

9.2 German debt facility

As at September 30, 2023, Buss & Buss has a $13.2 million (€12.5 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.

During the nine months ended September 30, 2023, Buss & Buss repaid $8.1 million (€7.6 million) of the revolving line of credit. As at September 30, 2023, there was no outstanding balance (December 31, 2022: $8.1 million (€7.6 million)).

There are no financial covenants which need to be met pertaining to the revolving line of credit.

9.3 Estonia debt facility

During the nine months ended September 30, 2023, Silmet repaid $7.0 million (€6.5 million), net of changes in foreign exchange, resulting in no amount outstanding as at September 30, 2023 (December 31, 2022: $6.9 million (€6.5 million) was drawn).

9.4 EDC credit facility

On December 14, 2022, the first tranche of $25.0 million was advanced to Neo. As at September 30, 2023, the carrying amount of the loan, measured at amortized cost, was $23.8 million (December 31, 2022: $23.7 million), of which $2.2 million was classified as current.

There were no defaults of principal or interest payments and no breaches of the loan agreement during the three-month period ended September 30, 2023. Neo is in compliance with all covenants in the Credit Facility agreement as at September 30, 2023.

9.5 Barclays Bank PLC loan facilities

SGTec has two term loan facilities in the amounts of $3.0 million (2.4 million Great British Pounds ("**GBP**")) and $0.4 million (0.3 million GBP), and a sales financing facility with Barclays Bank PLC ("**Barclays**") in the UK for general corporate purposes. The term loan facilities can be drawn in GBP and accrues interest at either a fixed or floating rate, as administered by the Bank of England bank rate, plus an applicable margin.

The securities for the term loan facilities include a cross guarantee in favor of Barclays and debenture in favor of Barclays either from or granted by SGTec, and a lien over the land and property of SGTec.

At the time of the acquisition, $2.8 million (2.3 million GBP) was drawn from the term loan facilities. During the three months ended September 30, 2023, SGTec repaid $1.3 million (1.1 million GBP) of the outstanding balance, resulting in $1.5 million (1.2 million GBP) outstanding as at September 30, 2023.

SGTec's term loan facilities contain the following financial covenants, each of which is assessed on an annual basis on March 31:

- The ratio of Modified EBITDA to Debt Service, as defined in the term loan agreement, shall not fall below 1.5 to 1 for each period of twelve months ending on the last day of a financial year of SGTec;
- The amount drawn on the term loans shall not at any time exceed 60% of SGTec's property value as defined in the term loan agreement; and
- The ratio of EBIT to Gross Financing Costs shall not fall below 2.5 to 1 for each twelve months ending on the last day of a financial year of SGTec.

NOTE 10 OPERATING SEGMENTS

The primary metric used to measure the financial performance of each operating segment is earnings before interest, taxes, depreciation and amortization ("**EBITDA**") before equity income (loss) in associates, other income (expense), foreign exchange (gain) loss, share-based compensation, impairment of assets, and other costs (recoveries) ("**Adjusted EBITDA**"). Both EBITDA and Adjusted EBITDA are non-IFRS measures 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, 2023:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 54,414	$ 56,527	$ 25,976	$ —	$ 136,917	$ —	$ 136,917
Inter-segment revenue	—	1,285	—	—	1,285	(1,285)	—
Total revenue	**$ 54,414**	**$ 57,812**	**$ 25,976**	**$ —**	**$ 138,202**	**$ (1,285)**	**$ 136,917**
Net (loss) income	**$ (2,513)**	**$ 7,440**	**$ 3,072**	**$ (5,245)**	**$ 2,754**	**$ 355**	**$ 3,109**
Finance cost (income), net	22	(166)	(583)	79	(648)	—	(648)
Income tax expense (recovery)	4,649	(1,876)	1,355	(4)	4,124	—	4,124
Depreciation and amortization included in cost of sales	1,026	1,256	392	—	2,674	—	2,674
Depreciation and amortization included in operating expenses	1,293	304	113	84	1,794	—	1,794
EBITDA	**$ 4,477**	**$ 6,958**	**$ 4,349**	**$ (5,086)**	**$ 10,698**	**$ 355**	**$ 11,053**
Reconciliation to Adjusted EBITDA:							
EBITDA	$ 4,477	$ 6,958	$ 4,349	$ (5,086)	$ 10,698	$ 355	$ 11,053
Other (income) expense [1]	(24)	(51)	(25)	(911)	(1,011)	—	(1,011)
Foreign exchange loss (gain)	735	(433)	(1,071)	959	190	—	190
Equity loss of associates	42	1,153	—	—	1,195	—	1,195
Share-based compensation [2]	103	110	40	771	1,024	—	1,024
Fair value adjustments to inventory acquired [3]	423	—	—	—	423	—	423
Transaction and project startup costs [4]	286	—	—	—	286	—	286
Adjusted EBITDA [5]	**$ 6,042**	**$ 7,737**	**$ 3,293**	**$ (4,267)**	**$ 12,805**	**$ 355**	**$ 13,160**
Capital expenditures	1,804	4,239	1,750	—	7,793	—	$ 7,793

Notes:

(1) Represents other (income) 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 16) and the LTIP.

(3) In accordance with IFRS 3 *Business Combinations*, and on completion of the acquisition of SGTec, Neo recorded SGTec's acquired inventory at fair value, which included a mark-up for profit of $1.3 million. A portion of this inventory was sold in the three months ended September 30, 2023 resulting in a $0.4 million impact on Net (loss) income.

(4) These represent primarily legal, professional advisory fees and other transaction costs for capital structuring associated with Neo or investments of Neo. Neo has removed these charges to provide comparability with historic periods. For the three months ended September 30, 2023, Neo incurred $0.3 million of project costs related to the establishment of the Sintered Magnet manufacturing capability in Europe. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.

(5) 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, 2023:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 158,908	$ 179,092	$ 104,877	$ —	$ 442,877	$ —	$ 442,877
Inter-segment revenue	—	1,285	—	—	1,285	(1,285)	—
Total revenue	**$ 158,908**	**$ 180,377**	**$ 104,877**	**$ —**	**$ 444,162**	**$ (1,285)**	**$ 442,877**
Net (loss) income	**$ (2,497)**	**$ 1,250**	**$ 9,204**	**$ (15,640)**	**$ (7,683)**	**$ 421**	**$ (7,262)**
Finance (income) cost, net	(108)	(325)	8,268	(386)	7,449	—	7,449
Income tax expense (recovery)	4,815	(1,243)	8,139	11	11,722	—	11,722
Depreciation and amortization included in cost of sales	2,864	3,526	820	—	7,210	—	7,210
Depreciation and amortization included in operating expenses	4,042	845	234	253	5,374	—	5,374
EBITDA	**$ 9,116**	**$ 4,053**	**$ 26,665**	**$ (15,762)**	**$ 24,072**	**$ 421**	**$ 24,493**
Reconciliation to Adjusted EBITDA:							
EBITDA	$ 9,116	$ 4,053	$ 26,665	$ (15,762)	$ 24,072	$ 421	$ 24,493
Other expense (income) [(1)]	103	479	(33)	(911)	(362)	—	(362)
Foreign exchange loss (gain)	124	151	(313)	1,470	1,432	—	1,432
Equity loss of associates	2,505	1,153	—	—	3,658	—	3,658
Share based compensation [(2)]	242	252	88	1,210	1,792	—	1,792
Fair value adjustments to inventory acquired [(3)]	995	—	—	—	995	—	995
Transaction and project startup costs [(4)]	2,114	—	—	—	2,114	—	2,114
Adjusted EBITDA [(5)]	**$ 15,199**	**$ 6,088**	**$ 26,407**	**$ (13,993)**	**$ 33,701**	**$ 421**	**$ 34,122**
Capital expenditures [(6)]	4,953	11,651	3,025	—	19,629	—	$ 19,629

<u>**Notes:**</u>

(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 16) and the LTIP.

(3) In accordance with IFRS 3 *Business Combinations*, and on completion of the acquisition of SGTec, Neo recorded SGTec's acquired inventory at fair value, which included a mark-up for profit of $1.3 million. A portion of this inventory was sold since the acquisition and had a $1.0 million impact on Net (loss) income in the nine months ended September 30, 2023.

(4) These represent primarily legal, professional advisory fees and other transaction costs for capital structuring associated with Neo or investments of Neo. Neo has removed these charges to provide comparability with historic periods. For the nine months ended September 30, 2023, Neo incurred total acquisition-related costs of $1.2 million in the acquisition of SGTec, as well as $0.9 million of project costs related to the establishment of the Sintered Magnet manufacturing capability in Europe. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.

(5) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

(6) Excludes the additions of Property, Plant and Equipment of $12.0 million from the acquisition of SGTec.

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 expense (recovery)	1,924	(312)	2,148	15	3,775	—	3,775
Depreciation and amortization included in cost of sales	859	962	458	—	2,279	—	2,279
Depreciation and amortization included in operating expenses	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 (income) 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 16) 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
Depreciation and amortization included in cost of sales	2,640	2,983	1,422	—	7,045	—	7,045
Depreciation and amortization included in operating expenses	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 16) and the LTIP.

(3) Represents primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions. 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, 2023:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
Total assets	$ 291,504	$ 208,838	$ 122,825	$ 8,005	$ 631,172	$ 355	$ 631,527
Investment in equity method associates	13,595	3,347	—	—	16,942	—	16,942
Total liabilities	(44,973)	(54,433)	(57,235)	(38,592)	(195,233)	—	(195,233)

As at December 31, 2022:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
Total assets	$ 285,745	$ 229,823	$ 110,693	$ 50,265	$ 676,526	$ (66)	$ 676,460
Investment in equity method associates	16,363	—	—	—	16,363	—	16,363
Total liabilities	(44,078)	(56,834)	(56,548)	(41,357)	(198,817)	—	(198,817)

The geographic distribution of Neo's revenue based on the location of its customers for the three and nine months ended September 30, 2023 and 2022 are summarized as follows:

Revenue	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2023	**2022**	**2023**	**2022**
Asia:				
China	$ 47,532	$ 40,323	$ 128,708	$ 157,919
Japan	22,705	27,990	76,529	74,867
Thailand	3,382	5,806	14,085	22,858
South Korea	4,829	4,346	10,567	8,239
North America	32,778	28,663	112,968	85,267
Europe	18,231	34,306	78,357	117,730
Other	7,460	5,193	21,663	14,250
Total	**$ 136,917**	**$ 146,627**	**$ 442,877**	**$ 481,130**

Revenue from a significant customer accounts for $14.6 million of Neo's total revenue for the three months ended September 30, 2023. There was no significant customer for the nine months ended September 30, 2023. For the three and nine months ended September 30, 2022, revenues from a significant customer accounted for $18.6 million and $61.5 million, respectively. Neo defines significant customers as those that generate 10% or more of consolidated revenue.

NOTE 11 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Nine Months Ended September 30,	
	2023	2022
Decrease (increase) in assets:		
Accounts receivable	$ 13,176	$ (20,187)
Inventories	20,338	(8,785)
Other assets	4,187	(3,989)
(Decrease) increase in liabilities:		
Accounts payable and other accrued charges	(722)	(30,753)
Other liabilities	409	(918)
Total net change	**$ 37,388**	**$ (64,632)**

NOTE 12 COMMITMENTS AND CONTINGENCIES

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

12.2 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 UK, 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, unsupportable, unexplained or uncertain; discovery not having been started or still incomplete; the complexity of the facts that are in dispute (e.g., the analysis of the patent and a comparison to the activities of Neo is a labor-intensive and highly technical process); the difficulty of assessing novel claims or legal arguments, and; the parties not having engaged in any meaningful settlement discussions. Management is required to apply judgment with respect to estimating the potential impact of the ongoing patent litigation on Neo. Potential impacts to Neo include, but are not limited to the 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 five expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1("**846**"), European patent #0605274 ("**274**"), European patent #0955267 B1 ("**267**"), and European patent #1435338 B1 ("**338**"). Neo C&O (Europe) filed an appeal in the 846 infringement action, which is still pending. Neo C&O (Europe) filed an appeal in the 338 infringement action but the Higher Regional Court of Karlsruhe affirmed the judgment of infringement. Neo C&O (Europe) subsequently filed for leave to appeal the 338 judgment of infringement to the German Federal Supreme Court and that application 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 of 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, 267 and 338 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, 267 and 338 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. Neo's lawsuit challenging the validity of 682 is pending in the German Federal Patent Court.

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed four unexpired patents: 018, 682, European Patent #3009403 B1 ("**403**") 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 403 infringement action is pending before the Düsseldorf Regional Court and a trial date has not yet been set. The 907 action was initiated at the beginning of July 2020, but Rhodia dismissed the 907 action in March 2021.

In April 2018, the 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' appeal of the trial court judgment was dismissed in January 2023. The Supreme Court subsequently denied the plaintiffs' application for permission to appeal, and therefore the damages judgment in favor of Neo C&O (Europe) is final.

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 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. 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 403. This case has not yet been set for trial. Neo C&O (Europe) has filed an action before the European Patent Office seeking to revoke 403.

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	$6.2 million
European Patent EP 3009403	Germany	Not specified
European Patent EP 3009403	Estonia	$0.1 million
European EP 1435338 B1 (1)	Germany	$40.1 million (€38.0 million)
European patent 0955267 (1)	Germany	$0.3 million (€0.3 million)
European patent 1527018	Germany	$0.7 million
European patent 2007682	Germany	Not specified

Notes:

(1) During the second quarter of 2023 the Claimant filed new pleadings, which allege a different sum of damages than the amount shown in the table. However, the Claimant redacted the relevant portions of the pleading that specify the claimed amount of damages, and these portions of the pleading are subject to confidentiality restrictions which prevent public disclosure.

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 13 SHARE CAPITAL

	September 30, 2023	December 31, 2022
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	42,627,592	45,196,921
Total treasury shares	—	—

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

Normal Course Issuer Bid

On June 14, 2023, Neo announced that the TSX had accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**NCIB**") for up to 3,585,011 of its issued and outstanding common shares. In connection with the NCIB, Neo 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, purchases under the NCIB will not exceed 25,290 shares, other than pursuant to a block purchase exemption, on any trading day during the NCIB, including during self-imposed trading blackout periods. The price that Neo will pay for any shares purchased under the NCIB will be the prevailing market price at the time of purchase. Any shares purchased by Neo will be canceled. The Share Purchase Plan terminates on June 18, 2024 and can be canceled at Neo's discretion prior to the termination date.

For the three and nine months ended September 30, 2023, Neo repurchased and canceled 2,394,170 shares for $15.5 million, and 2,585,940 shares for $16.7 million, respectively. There were no shares repurchased for the three and nine months ended September 30, 2022.

Between October 1 and November 9, 2023, Neo repurchased and canceled, 202,700 shares for a total consideration of $1.1 million.

NOTE 14 EARNINGS PER SHARE

14.1 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,	
	2023	**2022**	**2023**	**2022**
Common shares issued at beginning of period	45,021,762	40,681,902	45,196,921	40,668,902
Weighted average impact of:				
Issuance of common shares	—	687,068	5,598	244,305
Repurchase and cancellation of common shares under NCIB	(504,259)	—	(234,559)	—
Weighted average number of common shares for the period - basic	**44,517,503**	**41,368,970**	**44,967,960**	**40,913,207**

14.2 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,	
	2023	**2022**	**2023**	**2022**
Weighted average number of common shares - basic	44,517,503	41,368,970	44,967,960	40,913,207
Dilutive effect of stock units	501,897	—	—	440,024
Weighted average number of common shares - diluted	**45,019,400**	**41,368,970**	**44,967,960**	**41,353,231**

14.3 Earnings (loss) per share

The calculation of basic and diluted earnings (loss) per share was based on net income (loss) attributable to equity holders of Neo for the three and nine months ended September 30, 2023, and September 30, 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Net income (loss) attributable to equity holders of Neo Performance Materials Inc. - basic and diluted	$ 3,069	$ (3,719)	$ (7,075)	$ 33,238

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Earnings (loss) per share - basic	$ 0.07	$ (0.09)	$ (0.16)	$ 0.81
Earnings (loss) per share - diluted	$ 0.07	$ (0.09)	$ (0.16)	$ 0.80

For the three months ended September 30, 2023, 1,517,318 stock options were excluded because their effect would have been anti-dilutive (three months ended September 30, 2022: 1,158,228 stock options, 70,332 equity-settled RSUs, 215,155 equity-settled PSUs).

For the nine months ended September 30, 2023, all stock options, equity-settled RSUs and equity-settled PSUs were excluded because their effect would have been anti-dilutive (nine months ended September 30, 2022: 399,709 stock options, 38,820 equity-settled RSUs, 215,155 equity-settled PSUs).

NOTE 15 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, 2023, Neo had income tax expenses of $4.1 million and $11.7 million, respectively, on income from operations before taxes of $8.4 million and $8.1 million, respectively. For the three and nine months ended September 30, 2022, Neo had income tax expenses of $3.8 million and $15.8 million, respectively, on a loss from operations before taxes of $0.4 million and an income from operations before taxes of $45.8 million, respectively.

Neo's effective income tax rates were 48.9% and 144.4%, respectively, for the three and nine months ended September 30, 2023, and (1,023.0)% and 34.4% respectively, for the three and nine months ended September 30, 2022.

Significant items increasing the income tax expenses for the three and nine months ended September 30, 2023 include the impact of unrecognized deferred tax assets, foreign exchange translation of non-monetary assets and the benefit of certain tax losses not being recognized. The effective tax rate for the nine months ended September 30, 2023 is also impacted by the lower amount of pre-tax income for the period.

The negative effective income tax rate for the three months ended September 30, 2022 was 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 16 SHARE-BASED COMPENSATION

During the nine months ended September 30, 2023, Neo granted 61,567 DSUs to its directors under the omnibus long-term incentive plan (the "**Plan**") that was established on May 28, 2021. During the nine months ended September 30, 2023, Neo also granted 359,090 Options, 94,595 equity-settled RSUs, 236,455 equity-settled PSUs, 119,015 cash-settled RSUs, and 119,015 cash-settled PSUs under the Plan.

Equity-settled share-based compensation	Options	Weighted-average exercise price - Options	RSUs	PSUs
Outstanding, January 1, 2023	1,158,228	$ 10.96	70,332	215,155
Granted	359,090	$ 6.48	94,595	236,455
Exercised	—	$ —	(28,699)	—
Outstanding, September 30, 2023	1,517,318	$ 9.90	136,228	451,610
Exercisable, September 30, 2023	993,941	$ 10.46	—	—
Weighted average exercise price, exercised during the period ended September 30, 2023	$ 10.46			
Weighted average remaining contractual life, September 30, 2023	4.33 years		2.07 years	1.51 years

Cash-settled share-based compensation	RSUs	PSUs	DSUs
Outstanding, January 1, 2023	155,116	176,115	161,691
Granted	119,015	119,015	61,567
Expired/Forfeited	—	(56,775)	—
Exercised	(80,573)	—	—
Outstanding, September 30, 2023	193,558	238,355	223,258
Weighted average remaining contractual life, September 30, 2023	1.88 years	1.48 years	—

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 2023 and 2022:

	Options	RSUs	PSUs	DSUs
<u>Key assumptions used for 2023 grants:</u>				
Weighted average grant date fair value (per unit)	$ 3.16	$ 6.11	$ 6.11	$ 6.50
Dividend yield	5.0 %	— %	— %	— %
Expected volatility	54.0 %	— %	— %	— %
Risk-free interest rate	3.8 %	— %	— %	— %
Exercise price	$ 6.48	$ —	$ —	$ —
Forfeiture rate	— %	— %	— %	— %
Fair value of share-based compensation at grant date	$ 1,135	$ 1,305	$ 2,172	$ 400

	Options	RSUs	PSUs	DSUs
<u>Key assumptions used for 2022 grants:</u>				
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

The following table shows the share-based compensation expense recorded in the condensed consolidated statements of profit or loss during the three and nine months ended September 30, 2023 and September 30, 2022:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Options	$ 221	$ 261	$ 508	$ 740
RSUs	275	323	576	669
PSUs	581	510	524	1,297
DSUs	(53)	(359)	184	(833)
Total	**$ 1,024**	**$ 735**	**$ 1,792**	**$ 1,873**

NOTE 17 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.

17.1 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,	
	2023	2022	2023	2022
Purchase of goods and services from associates:				
TMT	$ 2,072	$ 1,453	$ 5,724	$ 2,528
Keli	11,789	20,514	24,102	65,318
GQD	233	164	3,330	12,933
Sales of goods and services to associates:				
TMT	2,705	1,283	8,651	6,668
Keli	—	—	—	1,374

17.2 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,	
	2023	2022	2023	2022
Sale of goods to Toda	$ 860	$ 148	$ 2,209	$ 1,302
Purchase of goods from Qian Dong	97	6	3,111	1,645

17.3 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, 2023, sales to Atatsu were nominal and $0.1 million, respectively. For the three and nine months ended September 30, 2022, sales to Atatsu were $0.7 million and $1.0 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,	
	2023	2022	2023	2022
Sale of goods and services to related parties	$ 6,329	$ 2,745	$ 20,189	$ 12,346
Purchase of goods and services from related parties	14,191	22,137	36,267	82,424

	September 30, 2023	December 31, 2022
Trade balances:		
from related parties	$ 2,743	$ 2,374
due to related parties	(5,008)	(9,295)
Total	**$ (2,265)**	**$ (6,921)**

NOTE 18 DIRECTORS AND KEY MANAGEMENT COMPENSATION

Neo's key management personnel consists of persons having authority and responsibility for planning, directing and controlling the activities of Neo, directly or indirectly. Key management personnel includes Neo's executive officers, vice-presidents and members of its board of directors. Neo's key management compensation expenses include short-term compensation and share-based compensation expenses.

Neo's short-term compensation expenses are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Directors	$ 141	$ 110	$ 475	$ 306
Key Executive Management	1,200	1,042	3,387	4,247
Total	**$ 1,341**	**$ 1,152**	**$ 3,862**	**$ 4,553**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Directors	$ (52)	$ (359)	$ 184	$ (833)
Key Executive Management	807	956	1,292	2,224
Total	**$ 755**	**$ 597**	**$ 1,476**	**$ 1,391**

NOTE 19 PROVISIONS

The provisions for the disposal of naturally occurring radioactive material ("**NORM**'), and for the estimated potential damages for historical volumes related to ongoing patent litigation, for the nine months ended September 30, 2023 are summarized below:

	September 30, 2023	December 31, 2022
Balance as at January 1, 2023 and 2022, respectively	24,973	20,687
Reclassified to accounts payable and other accrued charges	—	(2,391)
Provisions made, in the period	1,642	8,451
Payments made, in the period	(122)	(986)
Currency translation adjustment	(326)	(788)
Balance, at the end of period	**$ 26,167**	**$ 24,973**
Current portion	**$ 1,200**	**$ 1,369**
Non-current portion	**$ 24,967**	**$ 23,604**

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 in accordance with the aforementioned objectives, as well as in light of changes in economic conditions and the risk characteristics of underlying assets. Neo may also 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 FINANCE (INCOME) COSTS

Neo's net finance (income) costs generally consist of interest earned on bank deposits, interest paid on bank advances, interest paid on leases, dividends paid to non-controlling interests, and changes in the fair value of its financial assets and liabilities. The following table shows the breakdown of net finance (income) costs as presented in the condensed consolidated statements of profit or loss:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Change in fair value of equity securities (Note 8)	$ 197	$ 101	$ 415	$ 1,232
Change in fair value of derivative liabilities (Note 8)	(694)	1,245	7,922	2,502
Accretion expense on lease liabilities	60	26	169	95
Interest earned on bank deposits net of interest paid on bank advances	(267)	(102)	(1,388)	(169)
Interest expense on Estonia debt facility	—	41	140	58
Interest expense on China debt facility	—	113	45	387
Interest expense on German debt facility	56	13	146	38
Total	**$ (648)**	**$ 1,437**	**$ 7,449**	**$ 4,143**

For the three and nine months ended September 30, 2023, $0.6 million and $2.0 million, respectively, in interest expense relating to the EDC facility was capitalized into Property, Plant and Equipment in accordance with IAS 23 *Borrowing Costs*.

NOTE 22 BUSINESS COMBINATION

SG Technologies Group Limited

On April 19, 2023, Neo, through its subsidiary in the UK, NVEL, completed its acquisition of 90% of the outstanding share capital of SGTec, one of Europe's leading advanced, specialty manufacturers of rare-earth-based and other high-performance magnets for industrial and commercial markets. The remaining 10% of SGTec continues to be owned by the Retained Shareholders. The acquisition has been accounted for as a business combination in accordance with IFRS 3 *Business Combinations* ("**IFRS 3**").

The purchase is expected to further expand Neo's rare earth processing and magnet manufacturing footprint in Europe in strategic alignment with Neo's plans to launch production in 2025 of sintered rare earth magnet manufacturing in Estonia for the electric vehicle, electronics, energy-saving specialized motor applications markets, and other high-growth-potential nascent technology applications that are critical to the current global energy transition.

Neo made an initial cash payment of 11.6 million GBP ($14.4 million) upon completion of the acquisition, a portion of which is held in escrow to be released subject to certain terms and conditions, and a contingent consideration estimated to be 2.0 million GBP ($2.5 million) as at the acquisition date.

Neo is also contingently required to make a future cash payment based on SGTec's financial performance during its fiscal years ending March 31, 2024, March 31, 2025 and March 31, 2026. The amount of the payment will be between nil and a maximum of 5.4 million GBP and will be made in 2026.

Due to the short period of time between the acquisition date and the period end, the identification and measurement of the assets acquired and liabilities assumed, as well as the measurement of consideration remains provisional and subject to adjustment on completion of the valuation process and analysis of resulting effects. Management will finalize the accounting for the acquisition no later than one year from the date of the acquisition date and will reflect these adjustments retrospectively as required under IFRS 3. Differences between these provisional estimates and the final acquisition accounting may occur and these differences could have a material impact on Neo’s future financial position and results of operations.

A provisional estimate of the fair values of the assets to be acquired and the liabilities to be assumed by NVEL in connection with the acquisition is as follows:

Cash and cash equivalents	$	755
Accounts receivable		4,215
Inventories		8,050
Property, plant and equipment		11,958
Income taxes receivable		352
Other assets		2,184
Accounts payable and other accrued charges		(2,835)
Derivative liability (Note 8.1.2)		(1,894)
Deferred tax liabilities		(2,306)
Lease obligations		(2,105)
Long-term debt (Note 9.5)		(2,849)
Total net assets acquired	**$**	**15,525**

Cash	$	12,361
Cash held in escrow		2,014
Receivable from selling shareholders on working capital adjustment		(1,337)
Contingent consideration liability		2,487
Total consideration	**$**	**15,525**

There were no changes to provisional amounts previously disclosed in the interim condensed consolidated financial statements for the three and six-months ended June 30, 2023.

Neo incurred total acquisition-related costs of $1.2 million. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.

Simultaneously with the closing of the acquisition, NVEL entered into a Shareholders' Agreement with the Retained Shareholders of SGTec, which includes both a call option and a put option on the retained shares (see Note 8.1.2).

This option was fair valued as at April 19, 2023 to be $1.9 million. This has been recognized as part of the fair value of net assets acquired in the business combination and was recorded as a Derivative liability in the condensed consolidated statements of financial position.

The following table shows the impact of the business combination on Neo's financial performance as if the business combination had been completed on January 1, 2023:

Combined results		**Three months ended September 30, 2023**		**Nine months ended September 30, 2023**
Revenue	$	136,917	$	449,032
Net income (loss)		3,109		(6,196)

NOTE 23 SUBSEQUENT EVENT

Dividends payable to equity holders of Neo

On November 9, 2023, the Board of Directors declared a quarterly dividend of Cdn $0.10 per common share payable in cash on December 28, 2023, to common shareholders of record at the close of business on December 18, 2023.