NEO PERFORMANCE MATERIALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2023

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Neo Performance Materials Inc.

Opinion

We have audited the consolidated financial statements of Neo Performance Materials Inc. (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2023 and December 31, 2022
- the consolidated statements of profit or loss for the years then ended
- the consolidated statements of other comprehensive income (loss) for the years then ended
- the consolidated statements of cash flows for the years then ended
- the consolidated statements of changes in equity for the years then ended
- and notes to the consolidated financial statements, including a summary of material accounting policy information

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023**.** These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditor's report.

Evaluation of the recoverable amount of the Magnequench group of cash generating units containing goodwill

Description of the matter

We draw attention to Notes 4.7, 4.10, 4.16.2 and 11 to the financial statements. Goodwill is assigned to a cash generating unit or group of cash generating units. The Entity performs impairment testing for each group of cash generating units containing goodwill on an annual basis or more frequently if events or changes in circumstances indicate that the carrying value of the group of cash generating units might be impaired. The recoverable amount of a group of cash generating units is the greater of its value in use and its fair value less costs to sell. The estimated recoverable amount was determined based on forecasted cash flows discounted to calculate the present value of the cash flows expected to be derived from each group of cash generating units. This approach involves estimates and assumptions including forecasted revenue, the terminal value growth rate and the discount rate.

Why the matter is a key audit matter

We identified the evaluation of the recoverable amount of the Magnequench group of cash generating units containing goodwill as a key audit matter. This matter represented a significant risk of material misstatement as minor changes to certain significant assumptions had a significant effect on the estimated recoverable amount of the Magnequench group of cash generating units. Significant auditor judgment, including specialized skills and knowledge, was required in evaluating the results of audit procedures over the estimates and assumptions used in the Entity's determination of the recoverable amount.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We compared the Entity's forecasted revenue for the Magnequench group of cash generating units to actual results to assess the Entity's ability to accurately forecast.

We evaluated the appropriateness of the Entity's forecasted revenue by comparing it to industry data, analysts' expectations and/or internal forecasts.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the terminal value growth rate by comparing it to the expected long-term growth rate in the Entity's industry.

- Evaluating the appropriateness of the discount rate used by comparing it against a discount rate range that was independently developed using publicly available market data for comparable entities.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditor's report is Pieter Fourie.

Toronto, Canada

March 14, 2024

NEO PERFORMANCE MATERIALS INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(All figures in thousands of United States dollars)

	December 31, 2023	December 31, 2022
ASSETS		
Current		
Cash and cash equivalents	86,895	147,491
Restricted cash	3,357	1,179
Accounts receivable (Note 6)	67,643	81,409
Inventories (Note 7)	197,453	212,702
Income taxes receivable	744	355
Other current assets (Note 8)	22,542	23,279
Total current assets	**378,634**	**466,415**
Property, plant and equipment (Note 9)	118,918	75,767
Intangible assets (Note 10)	38,511	42,984
Goodwill (Note 11)	65,160	66,042
Investments (Note 12)	17,955	16,363
Deferred tax assets (Note 21)	6,760	6,956
Other non-current assets	1,066	1,933
Total non-current assets	**248,370**	**210,045**
Total assets	**$ 627,004**	**$ 676,460**
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt (Note 14)	—	17,288
Accounts payable and other accrued charges	71,984	69,093
Income taxes payable	9,207	10,033
Provisions (Note 25)	823	1,369
Lease obligations (Note 28.5)	1,664	1,264
Derivative liability (Note 13.1.1)	36,294	28,570
Current portion of long-term debt (Note 14)	2,230	747
Other current liabilities	692	278
Total current liabilities	**122,894**	**128,642**
Long-term debt (Note 14)	23,101	29,885
Employee benefits	108	489
Derivative liability (Note 13.1.2)	1,082	—
Provisions (Note 25)	26,197	23,604
Deferred tax liabilities (Note 21)	14,294	13,942
Lease obligations (Note 28.5)	2,425	813
Other non-current liabilities	1,592	1,442
Total non-current liabilities	**68,799**	**70,175**
Total liabilities	**191,693**	**198,817**
Non-controlling interest	3,164	3,193
Equity attributable to equity holders of Neo Performance Materials Inc.	432,147	474,450
Total equity	**435,311**	**477,643**
Total liabilities and equity	**$ 627,004**	**$ 676,460**

Commitments and contingencies (Note 18)
Subsequent events (Note 31)

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
(All figures in thousands of United States dollars, except per share information)

	Year Ended December 31, 2023		Year Ended December 31, 2022	
Revenues		571,545		640,298
Cost of sales				
Cost excluding depreciation and amortization		462,815		481,524
Depreciation and amortization		9,626		9,406
Gross profit		99,104		149,368
Expenses				
Selling, general and administrative		59,155		58,915
Share-based compensation (Note 22)		3,738		2,483
Depreciation and amortization		7,187		7,313
Research and development		16,144		20,810
Impairment of assets		1,713		1,233
		87,937		90,754
Operating income		**11,167**		**58,614**
Other income (expense)		3,138		(2,228)
Finance cost, net (Note 27)		(6,707)		(15,259)
Foreign exchange (loss) gain		(1,428)		301
Income from operations before income taxes and equity income of associates		6,170		41,428
Income tax expense (Note 21)		(11,683)		(17,793)
(Loss) income from operations before equity (loss) income of associates		(5,513)		23,635
Equity (loss) income of associates (net of income tax) (Note 12)		(2,878)		2,783
Net (loss) income	**$**	**(8,391)**	**$**	**26,418**
Attributable to:				
Equity holders of Neo Performance Materials Inc.	$	(8,442)	$	25,947
Non-controlling interest		51		471
	$	**(8,391)**	**$**	**26,418**
(Loss) earnings per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic (Note 20)	$	(0.19)	$	0.62
Diluted (Note 20)	$	(0.19)	$	0.61

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(All figures in thousands of United States dollars)

	Year Ended December 31,	
	2023	**2022**
Net (loss) income for the year	$ (8,391)	$ 26,418
Other comprehensive loss (income):		
Item that will not be reclassified subsequently to profit or loss:		
Defined benefit pension plan actuarial gain (net of income tax expense: 2023 - $70 ; 2022 - $141)	221	445
Item that is or may be reclassified subsequently to profit or loss:		
Currency translation adjustment	(3,693)	(17,347)
Other comprehensive loss for the year	**(3,472)**	**(16,902)**
Total comprehensive (loss) income for the year	**$ (11,863)**	**$ 9,516**
Attributable to:		
Equity holders of Neo Performance Materials Inc.	(11,894)	9,214
Non-controlling interest	31	302
	$ (11,863)	**$ 9,516**

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(All figures in thousands of United States dollars)

	Year Ended December 31, 2023	Year Ended December 31, 2022
Operating activities		
Net (loss) income for the year	$ (8,391)	$ 26,418
Add (deduct) items not affecting cash:		
Depreciation and amortization	16,813	16,720
Share-based compensation (Note 22)	3,738	2,483
Provisions made (Note 25)	2,333	8,451
Change in pension liability	(15)	59
Finance costs, net (Note 27)	6,707	15,259
Equity loss (income) of associates, net of income tax (Note 12)	2,878	(2,783)
Loss on disposal of assets	(157)	346
Gain on loss of control of investment (Note 12)	(19)	—
Income tax expense (Note 21)	11,683	17,793
Foreign exchange loss (gain)	694	(658)
Impairment of assets (net of reversals)	1,713	1,233
Gain on bargain purchase (Note 30)	(2,306)	—
Other	(557)	(67)
Net change in non-cash working capital balances related to operations (Note 17)	39,195	(67,829)
Cash contributions to defined benefit pension plan	(145)	(194)
Payments made to settle provisions (Note 25)	(180)	(986)
Income taxes paid, net of income taxes recovered	(13,410)	(12,352)
Interest received (paid), net of interest paid (received)	1,045	(197)
Cash provided by operating activities	**$ 61,619**	**$ 3,696**
Investing activities		
Additions of property, plant and equipment (Note 9)	(41,729)	(17,354)
Additions of intangible assets	(14)	(116)
Acquisition of business, net of cash acquired (Note 30)	(11,605)	—
Investment in associates (Note 12)	(4,806)	—
Dividends received from associates	332	—
(Increase) decrease in restricted cash (Note 30)	(2,044)	39
Proceeds from sale of assets	750	—
Cash used in investing activities	**$ (59,116)**	**$ (17,431)**
Financing activities		
(Decrease) increase in bank advances and other short-term debt, net	(17,347)	12,380
Proceeds from issuance of common shares from treasury	—	47,744
Dividends paid to equity holders of Neo Performance Materials Inc.	(13,396)	(13,401)
Share-based compensation paid	(637)	(919)
Proceeds from long-term debt	—	30,911
Repayment of long-term debt	(8,397)	(543)
Repurchase of common shares under NCIB (Note 19)	(19,893)	—
Lease payments	(2,220)	(1,433)
Dividends paid to non-controlling interest	(60)	—
Other financing activities	(93)	54
Cash (used in) provided by financing activities	**$ (62,043)**	**$ 74,793**
Effect of exchange rate changes on cash and cash equivalents	(1,056)	(2,604)
Cash (used) provided during the year	**(60,596)**	**58,454**
Cash and cash equivalents, beginning of year	147,491	89,037
Cash and cash equivalents, end of year	**$ 86,895**	**$ 147,491**

See accompanying notes

NEO PERFORMANCE MATERIALS INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(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	—	—	(8,442)	—	—	—	—	(8,442)	51	(8,391)
Other comprehensive loss	—	—	—	—	(3,673)	221	(3,452)	(3,452)	(20)	(3,472)
Total comprehensive loss	—	—	(8,442)	—	(3,673)	221	(3,452)	(11,894)	31	(11,863)
Share-based compensation	—	—	—	2,973	—	—	—	2,973	—	2,973
Dividends paid to equity holders of Neo Performance Materials Inc. (Cdn $0.10 per common share)	—	—	(13,396)	—	—	—	—	(13,396)	—	(13,396)
Dividend distributions to non-controlling interest	—	—	—	—	—	—	—	—	(60)	(60)
Shares repurchased and cancelled under Normal Course Issuer Bid (Note 19)	(3,186,140)	(3)	—	(19,890)	—	—	—	(19,893)	—	(19,893)
Issuance of common shares on stock-based awards	16,611	—	—	(93)	—	—	—	(93)	—	(93)
	(3,169,529)	(3)	(13,396)	(17,010)	—	—	—	(30,409)	(60)	(30,469)
Balance - December 31, 2023	**42,027,392**	**$ 42**	**$ (28,545)**	**$ 473,793**	**$ (14,817)**	**$ 1,674**	**$ (13,143)**	**$ 432,147**	**$ 3,164**	**$ 435,311**
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	—	—	25,947	—	—	—	—	25,947	471	26,418
Other comprehensive loss	—	—	—	—	(17,178)	445	(16,733)	(16,733)	(169)	(16,902)
Total comprehensive income (loss)	—	—	25,947	—	(17,178)	445	(16,733)	9,214	302	9,516
Share-based compensation	—	—	—	3,231	—	—	—	3,231	—	3,231
Dividends paid to equity holders of Neo Performance Materials Inc. (Cdn $0.10 per common share)	—	—	(13,401)	—	—	—	—	(13,401)	—	(13,401)
Issuance of common shares on stock-based awards	21,285	—	—	33	—	—	—	33	—	33
Issuance of common shares from treasury	4,506,734	4	—	47,744	—	—	—	47,748	—	47,748
	4,528,019	4	(13,401)	51,008	—	—	—	37,611	—	37,611
Balance - December 31, 2022	**45,196,921**	**$ 45**	**$ (6,707)**	**$ 490,803**	**$ (11,144)**	**$ 1,453**	**$ (9,691)**	**$ 474,450**	**$ 3,193**	**$ 477,643**

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 1,910 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 completed its acquisition of SG Technologies Group Limited and its wholly owned subsidiaries (collectively referred to as "**SGTec**"). For further details of this acquisition, see Note 30.

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 consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board.

The consolidated financial statements were approved and authorized for issuance by Neo's Board of Directors ("**Board**") on March 14, 2024.

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.

NOTE 3 BASIS OF PREPARATION

These 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.

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

NOTE 4 MATERIAL ACCOUNTING POLICIES

4.1 Overall considerations

These consolidated financial statements have been prepared using accounting policies specified by those IFRS Accounting Standards as issued by the International Accounting Standards Board that are in effect at the end of the reporting period December 31, 2023.

The material accounting policies that have been applied in the preparation of these consolidated financial statements are summarized below.

4.2 Basis of Consolidation

4.2.1 Business Combinations

Business combinations are accounted for using the acquisition method. The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statements of financial position at their fair values, which are also used as the basis for subsequent measurement in accordance with Neo's accounting policies. Non-controlling interest is measured at the fair value of the identifiable assets and liabilities acquired. Goodwill represents the excess of the fair value of the consideration transferred over the fair value of the identifiable net assets of the acquiree at the date of acquisition. However, if the fair value of the identifiable net assets exceeds the fair value of consideration, a bargain purchase gain is recognized in the statement of profit or loss.

Acquisition-related costs paid to third parties are expensed as incurred unless they are costs related to the issuance of debt or equity instruments. Debt issuance costs are accounted for as a deduction in the carrying value of the related debt instrument and amortized as a finance charge over the term of the debt, and equity issuance costs are accounted for as a deduction from share capital.

Regarding the acquisition of SGTec in 2023, 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. As of December 31, 2023, the purchase price allocation with respect to the SGTec business combination has been finalized. Refer to Note 30 for further details.

4.2.2 Subsidiaries and associates

Subsidiaries are entities controlled by Neo. Neo controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Non-controlling interests ("**NCI**") arise from business combinations in which Neo acquires less than 100% interest. NCI is initially measured at proportionate interest in the acquiree's identifiable net assets at the date of acquisition, which means that goodwill, or the gain on a bargain purchase, includes a portion attributable to ordinary NCI, with the exception of where such NCI has been accounted for as part of a derivative liability comprised of a put option issued to the NCI. In this case, the put option liability is subsequently re-measured at each reporting period end date.

Changes in Neo's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

An associate is an entity over which Neo has significant influence, but does not have control, or joint control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost.

Subsequent to initial recognition, the consolidated financial statements include Neo's share of the profit or loss and other comprehensive income (loss) ("**OCI**") of associates.

When Neo's share of losses exceeds its interest in an associate, the carrying amount of that interest is reduced to zero and recognition of further losses is discontinued except to the extent that Neo has incurred legal or constructive obligations or made payments on behalf of the associate. Changes resulting from the net income or loss generated by the associates are reported within equity income of associates in the consolidated statement of profit or loss.

Outlined below is information related to the Neo's subsidiaries and associates at December 31, 2023:

	Place of Business	**Entity Type**	**Economic Interest**	**Method**
Buss & Buss Spezialmetalle GmbH	Germany	Subsidiary	50%	Consolidation
Jiangyin Jia Hua Advanced Material Resources Co., Ltd.	China	Subsidiary	95%	Consolidation
Magnequench GmbH	Germany	Subsidiary	100%	Consolidation
Magnequench International, LLC	United States	Subsidiary	100%	Consolidation
Magnequench International Trading (Tianjin) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Magnequench (Korat) Co., Ltd.	Thailand	Subsidiary	100%	Consolidation
Magnequench Limited	Barbados	Subsidiary	100%	Consolidation
Magnequench, LLC	United States	Subsidiary	100%	Consolidation
Magnequench Magnetics (Chu Zhou) Co., Ltd.	China	Subsidiary	100%	Consolidation
Magnequench Neo Powders Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Magnequench (Tianjin) Company Limited	China	Subsidiary	100%	Consolidation
Magnet Ventures Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Neo Cayman Holdings Ltd.	Cayman Islands	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides (Europe) Ltd.	United Kingdom	Subsidiary	100%	Consolidation
Neo Chemicals & Oxides, LLC	United States	Subsidiary	100%	Consolidation
Neo International Corp.	Barbados	Subsidiary	100%	Consolidation
Neo Japan, Inc.	Japan	Subsidiary	100%	Consolidation
Neo Jia Hua Advanced Materials (Zibo) Co., Ltd.	China	Subsidiary	98%	Consolidation
Neo Magnequench Distribution, LLC	United States	Subsidiary	100%	Consolidation
Neo North Star Holdings, LLC	United States	Subsidiary	100%	Consolidation
Neo Performance Materials (Beijing) Co., Ltd.	China	Subsidiary	100%	Consolidation
Neo Performance Materials Korea Inc.	South Korea	Subsidiary	100%	Consolidation
Neo Performance Materials (Singapore) Pte. Ltd.	Singapore	Subsidiary	100%	Consolidation
Neo Performance Materials ULC	Canada	Subsidiary	100%	Consolidation
Neo Rare Metals (Korea) Inc.	South Korea	Subsidiary	80%	Consolidation

	Place of Business	Entity Type	Economic Interest	Method
Neo Rare Metals (Oklahoma), LLC	United States	Subsidiary	80%	Consolidation
Neo Rare Metals (USA), LLC	United States	Subsidiary	100%	Consolidation
Neo US Holdings, Inc.	United States	Subsidiary	100%	Consolidation
Neo Ventures Europe Limited	United Kingdom	Subsidiary	100%	Consolidation
Neo Water Treatment LLC	United States	Subsidiary	100%	Consolidation
NMT Holdings GmbH	Germany	Subsidiary	100%	Consolidation
NPM C&O Europe OÜ	Estonia	Subsidiary	100%	Consolidation
NPM Holdings (US), Inc.	United States	Subsidiary	100%	Consolidation
NPM Narva OÜ	Estonia	Subsidiary	100%	Consolidation
NPM Poland sp, z o.o.	Poland	Subsidiary	100%	Consolidation
NPM Silmet OÜ	Estonia	Subsidiary	100%	Consolidation
SG Technologies Group Limited	United Kingdom	Subsidiary	90%	Consolidation
SG Technologies Limited	United Kingdom	Subsidiary	90%	Consolidation
SG Magnets, Inc.	United States	Subsidiary	90%	Consolidation
SGTec (SEA) Pte Ltd.	Singapore	Subsidiary	90%	Consolidation
Xin Bao Investment Limited	Hong Kong	Subsidiary	100%	Consolidation
Zibo Jia Hua Advanced Material Resources Co., Ltd.	China	Subsidiary	98%	Consolidation
Zibo Jia Xin Magnetic Materials Ltd.	China	Subsidiary	100%	Consolidation
Zibo Shijia Trading Co., Ltd.	China	Subsidiary	59.6%	Consolidation
Gan Zhou Ke Li Rare Earth New Material	China	Joint venture	25%	Equity method
GQD Special Material (Thailand) Co., Ltd.	Thailand	Joint venture	20%	Equity method
Neo North Star Resources, Inc.	United States	Joint venture	44%	Equity method
Toda Magnequench Magnetic Material (Tianjin) Co., Ltd.	China	Joint venture	33%	Equity method

4.2.3 Transactions eliminated on consolidation

Inter-company transactions, balances, and any unrealized income and expenses arising from transactions between subsidiaries are eliminated. Unrealized gains arising from transactions with equity-accounted associates are eliminated against the investment to the extent of Neo's interest in the associates. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

4.3 Functional currency

The consolidated financial statements are presented in United States dollars ("**U.S. dollars**" or "**USD**"), which is the presentation currency of Neo. The functional currency of the Group's significant subsidiaries are the currencies of the primary economic environment and the business processes of the subsidiaries and include USD, Chinese Renminbi and Japanese Yen. The subsidiaries with functional currencies other than U.S. dollars are: Jiangyin Jia Hua Advanced Material Resources Co., Ltd. ("**JAMR**"); Neo Japan, Inc. ("**Neo Japan**"); Magnequench International Trading (Tianjin) Co., Ltd; Magnequench (Tianjin) Company Limited ("**MQTJ**"), Zibo Jia Hua

Advanced Material Resources Co., Ltd. ("**ZAMR**"); Magnequench Magnetics (Chu Zhou) Co., Ltd. ("**MQCZ**") and Zibo Shijia Trading Co., Ltd. ("**ZSTC**").

4.3.1 Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

4.3.2 Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into U.S. dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into U.S. dollars at the exchange rates at the dates of the transactions.

Foreign currency differences are recognized in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If Neo disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When Neo disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

4.4 Segment reporting

Neo's reporting segments are determined based on Neo's product lines, which are the basis upon which Neo's Chief Operating Decision Maker ("**CODM**") evaluates the performance of the business. Neo is organized along three business segments – Magnequench, C&O and RM. Discrete operating and financial information is available for these principal segments and is used to determine operating performance for each segment and to allocate resources.

Each of the operating segments is managed separately as each of these product lines requires different technologies, resources and marketing approaches. All inter-segment transactions between the segments have been eliminated on consolidation.

4.5 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer. Neo recognizes revenue when it transfers control over a good or service to a customer. The principal activity from which Neo generates its revenue is the sale of rare earth, magnetic powders, magnets, and rare metal-based functional materials to third parties. Delivery of the rare earth, magnetic powders, magnets, and rare metal-based functional materials are considered the only performance obligation. Transaction prices are based on the selling prices of the goods agreed with the customers. Control generally transfers when the goods are delivered and have been accepted by customers.

4.6 Operating expenses

Operating expenses are recognized in profit or loss upon utilization of the service or at the date of their origin.

4.7 Goodwill

Under the acquisition method of accounting, the fair value of the consideration paid is allocated to the identifiable assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. The excess of the fair value of consideration paid over the fair value of the identifiable net assets acquired is recorded as goodwill. Goodwill is not amortized; instead it is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the cash generating unit ("**CGU**") might be impaired and is carried at cost less accumulated impairment losses.

At the date of acquisition, goodwill is assigned to a CGU or group of cash generating units ("**CGUs**") that is expected to benefit from the synergies of the business combination. For the purpose of impairment testing, goodwill is allocated to Neo's operating segments, which are individual divisions and corresponds to the level at which goodwill is internally monitored by the CODM. Goodwill impairment is recognized for any excess of the carrying amount of the CGU (or group of CGUs) over its recoverable amount. The recoverable amount of a CGU or group of CGUs, is the greater of its value in use and its fair value less costs to sell. The recoverable amounts of the groups of CGUs are calculated using future cash flow projections based on financial forecasts approved by management.

Goodwill impairment charges are recognized in profit or loss and cannot be reversed in future periods.

4.8 Property, plant and equipment

Property, plant and equipment are recorded at cost and depreciated over their estimated useful lives on a straight-line basis, ranging from 4 to 40 years for buildings, 2 to 20 years for machinery and equipment, and 2 to 50 years for right-of-use assets. As no finite useful life for land can be determined, related carrying amounts are not depreciated. Consistent with IAS 16, "significant components" with different useful lives from the original asset purchased or constructed are identified and depreciated using a representative useful life. Generally, maintenance and repairs are charged to expense as incurred. However, "major overhauls and replacements" are capitalized to the consolidated statements of financial position as a separate component, with the replaced part or previous overhaul derecognized from the statements of financial position and recorded in the statements of profit or loss.

Construction in progress is not depreciated until put into use. Costs are only capitalized if the cost is directly attributable to the construction or development of the assets and may include:

- costs of employee benefits arising from the construction or acquisition of the item of property, plant and equipment;
- costs of site preparation;
- initial delivery and handling costs;
- installation and assembly costs;
- costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and
- professional fees.

In accordance with IAS 36 - Impairment of Assets, property, plant and equipment is reviewed each reporting period to determine whether indicators of impairment or reversal of impairment exist. If an indicator of impairment or reversal of impairment exists, the recoverable amount of the CGUs will be calculated to determine if any impairment loss or reversal of impairment is required.

The carrying values of property, plant and equipment, if they are determined to exceed their recoverable amounts, are written down to their recoverable amount and an impairment charge is recognized in the consolidated statements of profit or loss (see impairment section below). If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of its recoverable amount and the carrying value that would have remained had no impairment loss been recognized previously.

Impairment losses and reversals of previous impairments on property, plant and equipment are recognized in the Consolidated Statement of Profit or Loss as impairment expense (recovery) and are separately disclosed.

Gains or losses arising on the disposal of property, plant and equipment are determined as the difference between the disposal proceeds and the carrying amount of the assets and are recognized in the consolidated statements of profit or loss within other income or expense.

4.9 Intangible assets

Intangible assets acquired by way of an asset acquisition or business combination are recognized if the asset is separable or arises from contractual or legal rights and the fair value can be measured reliably upon initial recognition. Neo's intangible assets consist primarily of license agreements, customer relationships and trade name. Upon acquisition, customer relationships and license agreements are measured initially at fair value and are amortized on a straight-line basis over the period of the associated agreement or legal title: 5 to 10 years for license agreements and 10 to 15 years for customer relationships. Amortization has been included within depreciation and amortization expense in the consolidated statements of profit or loss. For any trade name with an indefinite life, its initial fair value recorded at acquisition will not be amortized, instead it is tested for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the asset might be impaired.

Intangible assets are reviewed each reporting period to determine whether indicators of impairment or reversal of impairment exist. If an indicator of impairment or reversal of impairment exists, the Entity calculates the recoverable amount of the CGUs to determine if any impairment loss or reversal of impairment is required.

The carrying values of finite live intangibles, if they are determined to exceed their recoverable amounts, are written down to their recoverable amount and an impairment charge is recognized in the consolidated statements of profit or loss (see impairment section below). If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of its recoverable amount and the carrying value that would have remained had no impairment loss been recognized previously.

Impairment losses and reversals of previous impairments on intangible assets are recognized in the Consolidated Statement of Profit or Loss as impairment expense (recovery) and are separately disclosed.

4.10 Impairment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows. As a result, some assets are tested individually for impairment and some are tested at the CGU level.

Goodwill is allocated to a CGU or group of CGUs for impairment testing purposes based on the level at which management monitors it, which is not at a level higher than an operating segment. The allocation is made to those CGUs or group of CGUs that are expected to benefit from synergies of the related business combination in which the goodwill arises.

Corporate head office assets and expenses are proportionately allocated to CGUs or group of CGUs based on management's involvement in the business activities of each CGU or group of CGUs.

A CGU or a group of CGUs, to which goodwill has been allocated, is tested for impairment at least annually and whenever there is an indication that it may be impaired. This testing is done by comparing the carrying amount of a CGU or group of CGUs, including the goodwill, with the recoverable amount of the CGU or group of CGUs. The recoverable amount of an asset, CGU or group of CGUs is the greater of its value in use and its fair value less costs to sell.

The recoverable amount of a CGU or group of CGUs, is the greater of its value in use and its fair value less costs to sell. To determine the recoverable amount, management estimates expected future cash flows from each CGU or group of CGUs and determines a suitable discount rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each CGU or group of CGUs and reflect their respective risk profiles as assessed by management.

Impairment losses for a CGU or group of CGUs are first allocated to reduce the carrying amount of goodwill allocated to that CGU or group of CGUs and the remainder is allocated to other assets of the CGU or group of CGUs on a pro rata basis. Goodwill impairment losses are not reversed.

Non-financial assets with finite lives are tested for impairment when events or changes in circumstances indicate that their carrying amounts may not be recoverable. In addition, non-financial assets that are not amortized are subject to an annual impairment assessment. Any impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount within earnings of continuing or discontinued operations, as appropriate. Neo evaluates impairment losses for potential reversals, other than goodwill impairment, at each reporting period.

4.11 Financial instruments

Financial assets and financial liabilities are recognized when Neo becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Financial instruments - classification and measurement

Financial assets are classified and measured based on these categories: fair value through profit or loss ("**FVPL**"); fair value through other comprehensive income ("**FVOCI**"); or amortized cost. Financial liabilities are classified and measured based on two categories: FVPL or amortized cost. Financial assets are not reclassified subsequent to their initial recognition unless Neo changes its business model for managing financial assets.

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

Impairment of financial assets

IFRS 9 uses a forward–looking expected credit losses ("**ECL**") model. The ECL model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The existing model aligns with the simplified approach under IFRS 9, which measures lifetime ECL and forward–looking information. Neo's allowance is determined by historical experiences, and considers factors including, the aging of the balances, the customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers.

4.12 Inventories

Inventories are stated at the lower of weighted-average cost and net realizable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs of ordinarily interchangeable items are assigned using a weighted-average formula. Net realizable value is the estimated selling price in the ordinary course of business less any applicable selling expenses. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of the write-down is reversed (i.e. the reversal is limited to the amount of the original write-down) so that the new carrying amount is the lower of the cost and the revised net realizable value.

4.13 Income taxes

Income tax expense comprises current and deferred tax. It is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in OCI.

4.13.1 Current tax

Current tax for each taxable entity is based on the local taxable income at the local statutory tax rate enacted or substantively enacted at the balance sheet date and includes adjustments to tax payable or recoverable in respect of previous periods. Current tax assets and liabilities are offset only if certain criteria are met.

4.13.2 Deferred tax

Deferred tax is recognized using the balance sheet method in respect of all temporary differences between the tax bases of assets and liabilities, and their carrying amounts for financial reporting purposes, except as indicated below.

- Where the deferred tax liability arises from the initial recognition of goodwill, or the initial recognition of an asset or liability in an acquisition that is not a business combination and, at the time of the acquisition, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries and interests in joint arrangements, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax assets and unused tax losses can be utilized. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of taxable temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax assets and liabilities are offset only if certain criteria are met.

4.14 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits. Cash equivalents may also include bank notes, as well as short-term money market instruments with terms of maturity less than three months at the date of acquisition, which can be immediately converted into cash upon acquisition.

4.15 Share-based compensation

Directors, officers and employees of Neo receive remuneration in the form of share-based payments, whereby these individuals render services as consideration for cash or equity instruments.

4.15.1 Equity-settled share-based plans

The cost of equity-settled share-based compensation is determined by the fair value at the date when the grant is made using an option pricing model. That cost is recognized in share-based compensation expense, together with a corresponding increase in equity (contributed surplus), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The expense recognized for equity-settled transactions at each reporting date reflects the vesting period, which has expired and Neo's best estimate of the number of equity instruments that will ultimately vest.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of Neo's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

4.15.2 Cash-settled share-based plans

The cost of cash-settled share-based compensation is recognized in share-based compensation expense as an expense over the period from the issue date to the vesting date. Obligations related to cash-settled share-based plans are recorded as liabilities at fair value in accounts payable and other accrued charges. At each reporting date, obligations related to cash-settled share-based plans are re-measured at fair value with reference to the fair value of Neo's share price and the number of units that have been vested. The corresponding share-based compensation expense or recovery is recognized over the vesting period.

4.15.3 Deferred share units plan

Neo has adopted a non-employee director deferred share units ("**DSUs**") plan, which is described in Note 22. Obligations related to the DSUs plan are recorded as liabilities at fair value in accounts payable and other accrued charges, and re-measured at each reporting date at fair value with reference to the fair value of Neo's share price and the number of units that have vested. The cost of DSUs is recognized in operating expenses in the period they are awarded.

4.16 Significant management judgments and estimates 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.

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

4.16.1 Income taxes

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

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

4.16.2 Impairment

An impairment loss is recognized for the amount by which an asset's or CGU's carrying amount exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. To determine the recoverable amount, management estimates expected future cash flows from each asset or CGU and determines a suitable discount rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows, management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to Neo's assets in future periods. In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors. Similarly, when a reversal of an impairment loss previously recorded occurs (for property, plant and equipment and finite life intangible assets), the reversal is recognized with the carrying amount of the asset increased to the lesser of the revised estimate of its recoverable amount and the carrying value that would have remained had no impairment loss been recognized previously. Significant judgment is involved in determining if there is an indication that an asset or a CGU may be impaired or there is an indication that a previously recognized impairment loss for an asset or a CGU has reversed because of a change in the estimates used to determine the impairment loss.

4.16.3 Business combinations

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

4.16.4 Useful lives of depreciable assets

Management reviews the useful lives, residual values, and method of depreciation of depreciable assets based on the expected utility of the assets annually. Any changes are accounted for prospectively as a change in accounting estimate.

4.16.5 Inventories

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

4.16.6 Provisions

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

4.16.7 Fair value of financial instruments

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

NOTE 5 RECENT ACCOUNTING PRONOUNCEMENTS

5.1 Neo adopted the following accounting standards and amendments to accounting standards during the year ended December 31, 2023:

5.1.1 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 amendment did not have a material impact on the consolidated financial statements.

5.1.2 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 were adopted by Neo on January 1, 2023 and applied prospectively.

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

5.1.3 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 were adopted by Neo on January 1, 2023 and applied prospectively.

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

5.2 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 December 31, 2023:

5.2.1 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.

5.2.2 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 January 1, 2025. Early adoption is permitted.

Neo does not anticipate that the above-mentioned amendments will have a material impact on its consolidated financial statements.

NOTE 6 ACCOUNTS RECEIVABLE

Neo uses the simplified provision matrix for calculating expected credit losses. Allowance is determined by historical experiences, and considers factors including, the aging of the balances, customer's credit worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets and location of customers. Payments are typically due 30 to 90 days upon completion of the performance obligations for each contract, generally upon delivery.

Neo reviews all amounts periodically for indicators of impairment and where applicable the amounts impaired have been provided for in the loss allowance. The life-time expected credit loss for the year ended December 31, 2023 was nominal.

Neo's exposure to credit risks and impairment losses related to accounts receivable is disclosed in Note 28.

NOTE 7 INVENTORIES

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

	December 31, 2023	December 31, 2022
Raw materials	$ 79,769	$ 58,426
Work-in-progress	36,211	55,618
Finished goods	75,299	91,621
Supplies	6,174	7,037
Total	**$ 197,453**	**$ 212,702**

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

For the year ended December 31, 2023, a total of $455.5 million of inventories was included in cost of sales compared to $476.9 million for the year ended December 31, 2022. These included $2.0 million of change in provisions for inventories in the year ended December 31, 2023. For the year ended December 31, 2022, Neo recorded a $3.5 million of change in provisions for inventories.

NOTE 8 OTHER CURRENT ASSETS

Other current assets consist of the following:

	December 31, 2023	December 31, 2022
Prepayments for inventory	$ 1,893	$ 12,976
Prepayments for property, plant and equipment	2,278	—
Other prepaid expenses	2,798	2,774
Value-added tax receivable	7,412	5,538
Notes receivable	4,337	954
Others	3,824	1,037
Total	**$ 22,542**	**$ 23,279**

NOTE 9 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 30)	6,740	622	3,107	2,035	164	605	13,273
Additions of property, plant, and equipment [1]	700	1,293	1,110	—	531	38,095	41,729
Additions of right-of-use assets	—	—	—	2,218	—	—	2,218
Write-offs, net of cost and accumulated depreciation	—	(19)	(558)	(163)	(9)	—	(749)
Transfers	—	176	4,218	(74)	(904)	(3,416)	—
Currency translation adjustments	10	(192)	(326)	(33)	(16)	208	(349)
Impairments (Reversal of impairments) [2]	—	(1,023)	(674)	—	—	1,121	(576)
Depreciation expense	—	(1,853)	(7,941)	(1,886)	(715)	—	(12,395)
Closing net book value as at December 31, 2023	**$ 10,000**	**$ 18,276**	**$ 31,502**	**$ 8,539**	**$ 2,886**	**$ 47,715**	**$118,918**
Comprised of:							
Cost	$ 10,000	$ 37,557	$ 96,141	$ 14,562	$ 7,837	$ 47,715	$213,812
Accumulated depreciation	—	(19,281)	(64,639)	(6,023)	(4,951)	—	(94,894)

Notes:

(1) For the year ended December 31, 2023, $22.7 million (RMB 161.3 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, $2.6 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 year ended December 31, 2023.

(2) In December 2023, Neo recorded an impairment of $1.7 million of property, plant and equipment in order to streamline the operational and business processes at NPM Silmet OÜ ("**Silmet**"), a subsidiary of Neo in Estonia.

In December 2023, $1.1 million of CIP that was previously impaired as a result of impairment testing performed as at June 30, 2020, was reversed as it will be transferred and utilized at NAMCO's new facility.

	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 10 INTANGIBLE ASSETS

Neo's intangible assets consist primarily of customer relationships, license agreements, patents and trade name. The following table illustrates the net book value of Neo's intangible assets:

	Customer Relationships	License Agreements and Patents	Trade Name	Total
At January 1, 2023				
Cost	58,776	4,659	6,000	$ 69,435
Accumulated amortization	(24,681)	(1,770)	—	(26,451)
Opening net book value at January 1, 2023	$ 34,095	$ 2,889	$ 6,000	$ 42,984
Acquisition through business combination (Note 30)	—	448	—	448
Additions	—	14	—	14
Currency translation adjustments	(487)	(30)	—	(517)
Amortization expense	(3,914)	(504)	—	(4,418)
Closing net book value at December 31, 2023	**$ 29,694**	**$ 2,817**	**$ 6,000**	**$ 38,511**
Comprised of:				
Cost	$ 57,918	$ 5,034	$ 6,000	$ 68,952
Accumulated amortization	(28,224)	(2,217)	—	(30,441)

	Customer Relationships	License agreements and Patents	Trade Name	Total
At January 1, 2022				
Cost	$ 62,620	$ 4,790	$ 6,000	$ 73,410
Accumulated amortization	(22,072)	(1,377)	—	(23,449)
Opening net book value at January 1, 2022	$ 40,548	$ 3,413	$ 6,000	$ 49,961
Additions	—	116	—	116
Disposals	—	(24)	—	(24)
Currency translation adjustments	(2,393)	(165)	—	(2,558)
Amortization expense	(4,060)	(451)	—	(4,511)
Closing net book value at December 31, 2022	**$ 34,095**	**$ 2,889**	**$ 6,000**	**$ 42,984**
Comprised of:				
Cost	$ 58,776	$ 4,659	$ 6,000	$ 69,435
Accumulated amortization	(24,681)	(1,770)	—	(26,451)

NOTE 11 GOODWILL

	December 31, 2023	December 31, 2022
Balance as at January 1, 2023 and 2022, respectively	$ 66,042	$ 70,082
Currency translation adjustments	(882)	(4,040)
Ending balance	**$ 65,160**	**$ 66,042**

On December 31, 2023, Neo performed a goodwill impairment test for its Magnequench segment in accordance with its accounting policies and based on conditions at that date. The recoverable amount for the Magnequench group of CGUs was determined based on fair value less cost to sell. The calculations used a detailed seven-year cash flow projection based on financial forecasts prepared by management. Cash flows beyond the seven-year period were extrapolated using an estimated terminal value growth rate. The forecasted cash flows were then discounted to calculate the present value of the cash flows expected to be derived from the Magnequench group of CGUs. This approach involves estimates and assumptions including forecasted revenue, the terminal value growth rate and the discount rate. The fair value measurement was categorized as a Level 3 fair value measurement based on significant unobservable inputs in the valuation technique used.

1. **Forecasted revenue and terminal value growth rate** are determined based on management's past experience in the industry and its forward-looking estimates for performance of the Magnequench group of CGUs. Forecasted revenue growth averaged 15.5% (2022: 13.0%) based on Magnequench's seven-year financial plan. The cash flow forecasts at the end of the planning period were extrapolated using an estimated terminal value growth rate of 5.0% (2022: 5.0%).

2. **Discount rate** is determined in order to calculate the present value of the projected cash flows of the Magnequench group of CGUs. The post-tax discount rate was 12.7% for Magnequench at December 31, 2023 (2022: 13.1%).

The following table shows the amount of goodwill allocated to the Magnequench segment:

	December 31, 2023	December 31, 2022
Goodwill	**$ 65,160**	**$ 66,042**

The following table shows the intangible assets with an indefinite useful life at the Magnequench segment:

	December 31, 2023	December 31, 2022
Trade name	$ 6,000	$ 6,000

As a result of the annual goodwill and indefinite life intangible asset impairment test performed at December 31, 2023, it was determined that the recoverable amount exceeded the carrying amount of the Magnequench group of CGUs and therefore no impairment existed in the Magnequench group of CGUs at December 31, 2023.

NOTE 12 INVESTMENTS

12.1 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.

12.2 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.

12.3 Summary of Investments Accounted for Using the Equity Method

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

Aggregate financial information of these equity accounted associates as at and for the December 31, 2023 and December 31, 2022 is provided below.

For the year ended December 31, 2023:

	TMT	Keli	GQD	NNSR	Total
Total revenue	$ 14,262	$ 462,903	$ 53,633	$ —	$ 530,798
Share of revenue in associates	4,707	115,726	10,727	—	131,160
Net income (loss)	360	(9,427)	3,096	(4,555)	(10,526)
Share of income (loss) in associates	126	(2,285)	622	(1,341)	(2,878)

For the year ended December 31, 2022:

	TMT	Keli	GQD	NNSR	Total
Total revenue	$ 12,516	$ 745,711	$ 84,029	$ —	$ 842,256
Share of revenue in associates	4,130	186,428	16,806	—	207,364
Net income	778	9,812	2,757	—	13,347
Share of income in associates	250	2,000	533	—	2,783

As at December 31, 2023:

	TMT	Keli	GQD	NNSR	Total
Current assets	$ 9,618	$ 194,223	$ 31,238	$ 1,921	$ 237,000
Non-current assets	$ 2,842	$ 5,226	$ 1,267	$ 3,953	$ 13,288
Total assets of associates	**$ 12,460**	**$ 199,449**	**$ 32,505**	**$ 5,874**	**$ 250,288**
Current liabilities	$ 2,039	$ 157,055	$ 18,808	$ 229	$ 178,131
Non-current liabilities	$ 2,907	$ 2,928	$ —	$ —	$ 5,835
Total liabilities of associates	**$ 4,946**	**$ 159,983**	**$ 18,808**	**$ 229**	**$ 183,966**

As at December 31, 2022:

	TMT	Keli	GQD	NNSR	Total
Current assets	$ 11,101	$ 150,122	$ 21,248	$ —	$ 182,471
Non-current assets	$ 1,120	$ 5,443	$ 1,343	$ —	$ 7,906
Total assets of associates	**$ 12,221**	**$ 155,565**	**$ 22,591**	**$ —**	**$ 190,377**
Current liabilities	$ 2,187	$ 105,431	$ 12,012	$ —	$ 119,630
Non-current liabilities	$ 2,701	$ —	$ —	$ —	$ 2,701
Total liabilities of associates	**$ 4,888**	**$ 105,431**	**$ 12,012**	**$ —**	**$ 122,331**

Investments accounted for using the equity method are as follows:

	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	126	(2,285)	622	(1,341)	(2,878)
Unrealized profit from sales to associates	(4)	—	—	—	(4)
Dividends received from associates	—	—	(332)	—	(332)
Investment in associates	—	—	306	4,500	4,806
Carrying value as at December 31, 2023	**$ 2,495**	**$ 9,475**	**$ 2,826**	**$ 3,159**	**$ 17,955**
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)
Carrying value as at December 31, 2022	**$ 2,373**	**$ 11,760**	**$ 2,230**	**$ —**	**$ 16,363**

NOTE 13 CATEGORIES OF FINANCIAL INSTRUMENTS

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

<u>Financial Assets</u>	December 31, 2023	December 31, 2022
Fair value through profit or loss		
Equity securities [1]	$ 342	$ 902
Measured at amortized cost [2]		
Cash and cash equivalents:		
Cash	86,895	139,962
Short-term deposits [3]	—	7,529
Total cash and cash equivalents	86,895	147,491
Restricted cash	3,357	1,179
Accounts receivable	67,643	81,409
	$ 157,895	$ 230,079
Total financial assets	**$ 158,237**	**$ 230,981**

Financial Liabilities	December 31, 2023	December 31, 2022
Fair value through profit or loss		
Put option issued to non-controlling interest of Buss & Buss (derivative liability)	$ 36,294	$ 28,570
Put option issued to non-controlling interest of SGTec (derivative liability) (Note 30)	1,082	—
Contingent consideration liability of SGTec (Note 30)	686	—
	$ 38,062	$ 28,570
Measured at amortized cost [(2)]		
Current:		
Bank advances and other short-term debt	—	17,288
Accounts payable and other accrued charges	71,984	69,093
Current portion of long-term debt [(4)]	2,230	747
	$ 74,214	$ 87,128
Non-current:		
Long-term debt [(5)]	$ 23,101	$ 29,885
Total financial liabilities	**$ 135,377**	**$ 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 year ended December 31, 2023, the fair value of these equity securities decreased by $0.6 million (decreased by $1.2 million for the year ended December 31, 2022)

(2) The carrying values of the financial instruments, current and non-current, measured at amortized cost are a reasonable approximation of their fair value with the exception of the EDC credit facility which has an amortized cost of $23.8 million and a fair value of $25.0 million as at December 31, 2023.

(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 14.4) as well as SGTec's two term loan facilities (see Note 14.5).

13.1 Derivative liabilities

13.1.1 Buss & Buss Spezialmetalle GmbH

As at December 31, 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 consolidated statements of profit or loss.

For the year ended December 31, 2023, the change in the fair value of the derivative liability was an increase of $7.7 million (see Note 27). 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 year ended December 31, 2022, the change in the fair value of the derivative liability was an increase of $13.9 million.

13.1.2 SGTec

On April 19, 2023, Neo, through its subsidiary in the UK, Neo Venture Europe Limited (**"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 30).

This put option was fair valued as at April 19, 2023 to be $1.6 million and was recorded as a Derivative liability (see Note 30). This is subsequently re-measured to be $1.1 million as at December 31, 2023, and the change in the put option liability was recorded in the consolidated statements of profit or loss. For the year ended December 31, 2023, the change in the fair value of the derivative liability was $0.5 million.

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 a minimum of nil and a maximum of 5.4 million GBP and the payment will be made in 2026. This contingent consideration was estimated to be 0.5 million GBP ($0.7 million) as at the acquisition date (see Note 30) and was recorded in Other non-current liabilities in the statement of financial position.

13.2 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 December 31, 2023, are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3
Financial Assets:			
Equity securities	$ 342	$ —	$ —
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	$ —	$ —	$ 36,294
Put option issued to non-controlling interest of SGTec	$ —	$ —	1,082
Contingent consideration liability	$ —	$ —	686

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 December 31, 2023:

	December 31, 2023		December 31, 2022	
Balance as at January 1, 2023 and 2022, respectively	$	902	$	2,056
Change in fair value		(565)		(1,075)
Foreign exchange gain (loss)		5		(79)
Ending balance	**$**	**342**	**$**	**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. The following is a sensitively analysis of the inputs to the valuation model of the Buss & Buss derivative liability as at December 31, 2023:

	Effect of 1% increase [(1)]	Effect of 1% decrease [(1)]
Terminal growth rate	556	(488)
Overall discount rate	(1,103)	1,229

Notes:

(1) Assuming all other inputs are unchanged

There have been no transfers between levels for the year ended December 31, 2023.

For further discussion of financial liabilities measured at amortized cost specifically for bank advances and other short and long-term debt, see Note 14.

NOTE 14 BANK ADVANCES, SHORT-TERM DEBT, AND LONG-TERM DEBT

14.1 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 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 Euro 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 Euro, 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.

During the year ended December 31, 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 December 31, 2023 (December 31, 2022: $9.2 million (RMB 64.2 million)).

14.2 German debt facility

As at December 31, 2023, Buss & Buss has a $13.9 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.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling shareholder of Buss & Buss amounting to $0.3 million (€0.3 million) as well as a lien amounting to $0.6 million (€0.5 million) on certain property, plant and equipment. The remainder of the revolving line of credit is secured by certain working capital of Buss & Buss.

During the year ended December 31, 2023, Buss & Buss repaid $8.1 million (€7.6 million) of the revolving line of credit. As at December 31, 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.

14.3 Estonia debt facility

On December 23, 2021, Silmet entered into a $7.8 million (€7.0 million) credit facility with OP Corporate Bank plc Eesti filiaal ("**OP Bank**") to finance working capital and other investments at Silmet. This debt facility can be drawn in Euros and accrues interest at a rate equal to the 6-month Euribor plus 1.95% per annum.

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 $10.0 million (€9.0 million), and certain other fixed assets for $5.5 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.

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

14.4 EDC 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 its environmental emissions catalyst manufacturing facility (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.

On December 14, 2022, the first tranche of $25.0 million was advanced to Neo. As at December 31, 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 year ended December 31, 2023. Neo is in compliance with all covenants in the Credit Facility agreement as at December 31, 2023.

On January 11, 2024, the second tranche of $25.0 million was advanced to Neo.

14.5 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 favour of Barclays and debenture in favour 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 year ended December 31, 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 December 31, 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 15 LEASES

15.1 Right-of-use assets

Neo leases vehicles, machinery, land and buildings for its office and research and development facilities. The leases of vehicles, machinery and office spaces typically run for a period of 2 to 5 years. The leases of land could range for a period of 1 to 50 years. Some leases include an option to renew the lease for an additional period of the same duration after the end of the contract term.

Neo also leases office equipment with contract terms of 1 to 2 years. These leases are short-term and/or leases of low-value items. Neo has elected not to recognize right-of-use assets and leases liabilities for these leases.

Information about Neo's right-of-use assets is presented in Note 9.

15.2 Lease liabilities

The following table shows the contractual undiscounted cash flows of the leases based on their maturity date:

Less than one year		1,891
One to five years		1,920
More than five years		1,525
Total undiscounted lease liabilities at December 31, 2023	**$**	**5,336**

15.3 Amounts recognized in profit or loss

The following table shows the amount of lease related expenses recognized in the statement of profit or loss for the year ended December 31, 2023:

Interest on lease liabilities	$	229
Expenses relating to short-term leases	$	20
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets	$	3

NOTE 16 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 year ended December 31, 2023:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 213,735	$ 233,209	$ 124,601	$ —	$ 571,545	$ —	$ 571,545
Inter-segment revenue	—	2,720	—	—	2,720	(2,720)	—
Total revenue	**$ 213,735**	**$ 235,929**	**$ 124,601**	**$ —**	**$ 574,265**	**$ (2,720)**	**$ 571,545**
Net income (loss)	**$ 7,773**	**$ (1,123)**	**$ 3,761**	**$ (18,910)**	**$ (8,499)**	**$ 108**	**$ (8,391)**
Finance (income) cost, net	(621)	(443)	8,097	(326)	6,707	—	6,707
Income tax expense (benefit)	2,206	2,526	6,970	(19)	11,683	—	11,683
Depreciation and amortization included in cost of sales	3,791	4,630	1,205	—	9,626	—	9,626
Depreciation and amortization included in operating expenses	5,399	1,124	334	330	7,187	—	7,187
EBITDA	**$ 18,548**	**$ 6,714**	**$ 20,367**	**$ (18,925)**	**$ 26,704**	**$ 108**	**$ 26,812**
Reconciliation to Adjusted EBITDA:							
EBITDA	$ 18,548	$ 6,714	$ 20,367	$ (18,925)	$ 26,704	$ 108	$ 26,812
Other (income) expense [1]	(2,237)	95	(85)	(911)	(3,138)	—	(3,138)
Foreign exchange (gain) loss	(1,041)	1,691	925	(147)	1,428	—	1,428
Equity loss of associates	1,537	1,341	—	—	2,878	—	2,878
Share based compensation [2]	554	586	166	2,432	3,738	—	3,738
Fair value adjustments to inventory acquired [3]	1,217	—	—	—	1,217	—	1,217
(Recovery) impairment of assets [4]	—	(1,121)	2,834	—	1,713	—	1,713
Transaction and project startup costs [5]	2,571	—	—	—	2,571	—	2,571
Adjusted EBITDA [6]	**$ 21,149**	**$ 9,306**	**$ 24,207**	**$ (17,551)**	**$ 37,111**	**$ 108**	**$ 37,219**
Capital expenditures [7]	$ 12,065	$ 28,184	$ 3,712	$ —	43,961	$ —	$ 43,961

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. For the year ended December 31, 2023, included in other income was a bargain purchase gain resulting from the acquisition of SGTec when the consideration paid was less than the fair value of the identifiable net assets, and a net gain of $0.7 million from the sale of Neo's property, plant and equipment at its subsidiary in south Korea. This was partly offset by the restructuring cost at the Silmet facility from the shuttering of its energy-intensive hydrometallurgical processing of niobium and tantalum bearing ores, the restructuring cost at Neo's facility in south Korea, charges for estimated damage claims related to legal proceedings and estimated costs for the disposal of existing NORM.

(2) Represents share-based compensation expense in respect of the Omnibus LTIP (Note 22) 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 $1.2 million. All the inventory was sold during the year and had a $1.2 million impact on Net (loss) income in the year ended December 31, 2023.

(4) Represents impairment in property, plant and equipment and inventory in order to streamline the operational and business processes at the Silmet facility. The recovery of asset in the C&O segment was due to the reversal of previously impaired asset on June 30, 2020, which will be transferred to NAMCO's new facility for utilization.

(5) 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 year ended December 31, 2023, Neo incurred total acquisition-related costs of $1.2 million in the acquisition of SGTec, as well as $1.4 million of project costs related to the establishment of the rare earth magnet manufacturing capability in Europe. These costs have been included in selling, general and administrative expense in the consolidated statements of profit or loss.

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

(7) Excludes the additions of Property, Plant and Equipment of $13.3 million from the acquisition of SGTec.

For the year ended December 31, 2022:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	$ 277,412	$ 232,500	$ 130,386	$ —	$ 640,298	$ —	$ 640,298
Inter-segment revenue	—	15,511	—	—	15,511	(15,511)	—
Total revenue	**$ 277,412**	**$ 248,011**	**$ 130,386**	**$ —**	**$ 655,809**	**$ (15,511)**	**$ 640,298**
Net Income (loss)	**$ 25,148**	**$ 19,127**	**$ (858)**	**$ (19,652)**	**$ 23,765**	**$ 2,653**	**$ 26,418**
Finance (income) cost, net	(135)	665	14,161	568	15,259	—	15,259
Income tax expense	8,123	2,968	6,629	73	17,793	—	17,793
Depreciation and amortization included in cost of sales	3,472	4,055	1,879	—	9,406	—	9,406
Depreciation and amortization included in operating expenses	5,570	1,137	308	298	7,313	—	7,313
EBITDA	**$ 42,178**	**$ 27,952**	**$ 22,119**	**$ (18,713)**	**$ 73,536**	**$ 2,653**	**$ 76,189**
Reconciliation to Adjusted EBITDA:							
EBITDA	$ 42,178	$ 27,952	$ 22,119	$ (18,713)	$ 73,536	$ 2,653	$ 76,189
Other (income) expense	(258)	1,416	1,070	—	2,228	—	2,228
Foreign exchange loss (gain)	440	(2,000)	(23)	1,282	(301)	—	(301)
Equity income of associates	(2,783)	—	—	—	(2,783)	—	(2,783)
Share and value-based compensation (1)	595	669	195	1,024	2,483	—	2,483
Impairment of assets (2)	—	287	946	—	1,233	—	1,233
Other recoveries (3)	—	—	—	(22)	(22)	—	(22)
Adjusted EBITDA (4)	**$ 40,172**	**$ 28,324**	**$ 24,307**	**$ (16,429)**	**$ 76,374**	**$ 2,653**	**$ 79,027**
Capital expenditures	$ 3,238	$ 11,812	$ 2,420	$ —	$ 17,470	$ —	$ 17,470

Notes:

(1) Represents share-based compensation expense in respect of the Omnibus LTIP (Note 22) and the LTIP.

(2) Represents impairment in property, plant and equipment, long-term asset and prepayment.

(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 December 31, 2023:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
Total assets	$ 298,978	$ 199,174	$ 120,075	$ 8,735	$ 626,962	$ 42	$ 627,004
Investment in equity method associates	14,796	3,159	—	—	17,955	—	17,955
Total liabilities	(50,281)	(46,711)	(58,487)	(36,214)	(191,693)	—	(191,693)

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 year ended December 31, 2023 and 2022 are summarized as follows:

Revenue	**Year Ended December 31,**	
	2023	**2022**
Asia:		
China	$ 185,086	$ 205,675
Japan	97,019	101,910
Thailand	18,003	27,442
South Korea	14,848	14,494
North America	132,664	127,442
Europe	96,986	143,829
Other	26,939	19,506
Total	**$ 571,545**	**$ 640,298**

Revenue from one significant customer accounted for $48.3 million and $77.5 million of Neo's total revenue for the year ended December 31, 2023 and December 31, 2022, respectively. Neo defines significant customers as those that generates 10% or more of consolidated revenue.

The geographic distribution of Neo's non-current assets (excluding deferred tax assets, goodwill and intangible assets) based on the location of the assets is summarized as follows:

	December 31, 2023	December 31, 2022
Asia:		
China	$ 69,118	$ 47,292
Singapore	1,860	1,386
Thailand	5,325	5,625
North America	17,019	17,505
Europe	41,542	17,354
Other	3,075	4,902
Total	**$ 137,939**	**$ 94,064**

NOTE 17 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year Ended December 31,	
	2023	2022
Decrease (increase) in assets:		
Accounts receivable	$ 17,370	$ (19,238)
Inventories	20,268	(18,872)
Other assets	2,973	(5,415)
(Decrease) increase in liabilities:		
Accounts payable and other accrued charges	(1,755)	(23,305)
Other liabilities	339	(999)
Total net change	**$ 39,195**	**$ (67,829)**

NOTE 18 COMMITMENTS AND CONTINGENCIES

18.1 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.

18.2 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, 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 labour-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 six 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**"), European patent #1527018 ("**018**") and European patent #1435338 B1 ("**338**"). Neo C&O (Europe) filed an appeal in the 018 infringement action, which stayed pending a final judgement in a separate case concerning the validity of 018, which is pending before the German Federal Supreme Court. 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, 846 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 018, European patent #2523907 ("**907**") and European patent #2007682 ("**682**"). The German Federal Patent Court upheld the validity of both 018 and 907 in restricted form. Both Rhodia and Neo have appealed these rulings. The German Federal Supreme Court has set the 018 matter for a hearing on October 10, 2024, and the 907 matter for a hearing on December 3, 2024. On February 6, 2024, the German Federal Patent Court revoked 682 in Germany. This ruling is subject to the right of appeal by Rhodia.

In addition to the above-referenced cases, Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed 682, 907 and European Patent #3009403 B1 ("**403**"). 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 was pending before the Düsseldorf Regional Court at December 31, 2023, and a hearing happened on February 22, 2024. On March 14, 2024, the Düsseldorf Regional Court ruled that Neo infringed on 403. This ruling is subject to Neo's right of appeal. 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 favour of Neo C&O (Europe) is 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 appealed the judgment of non-infringement. In December 2023, the Supreme People's Court affirmed the judgment of non-infringement, and dismissed the appeal of Rhodia.

In November of 2020, Rhodia Operations filed a lawsuit in Estonia against NPM Silmet OÜ ("**Silmet**") 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	
European Patent EP 3009403	Germany	Not specified
European Patent EP 3009403	Estonia	$0.1 million
European EP 1435338 B1 [(1)]	Germany	$42.1 million (€38.0 million)
European patent 0955267 [(1)]	Germany	$0.7 million (€0.6 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 19 SHARE CAPITAL

	December 31, 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	42,027,392	45,196,921
Total treasury shares	—	—

19.1 Common Shares

Neo's authorized capital consists of an unlimited number of Common Shares without par value. The holders of the Common Shares are entitled to receive notice of and to attend and vote at all meetings of the shareholders of Neo and each Common Share confers the right to one vote in person or by proxy at all meetings of the shareholders of Neo. The holders of the Common Shares, subject to the prior rights, if any, of any other class of shares of Neo, are entitled to receive such dividends in any financial year as the Board may by resolution determine. In the event of the liquidation, dissolution or winding-up of Neo, whether voluntary or involuntary, the holders of the Common Shares are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares of Neo, the remaining property and assets of Neo.

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.

19.2 Preferred Shares

The Board has the authority, without action by Neo's shareholders, to designate and issue an unlimited number of Preferred Shares in one or more series and to designate the rights, preferences and privileges of each series. The Preferred Shares of each series will rank on par with the Preferred Shares of every other series and, if so designated by the Board, will be entitled to preference over the Common Shares with respect to payment of dividends and distribution of any assets in the event of Neo's liquidation, dissolution or winding-up. Where Neo does not pay cumulative dividends in full with respect to a series of its Preferred Shares, the shares of all series of the Preferred Shares will participate ratably with respect to the accumulated dividends in accordance with the amounts that would be payable on those shares if all the accumulated dividends were paid in full.

The issuance of Preferred Shares and the terms selected by the Board could decrease the amount of earnings and assets available for distribution to holders of the Common Shares and/or adversely affect the rights and powers, including the voting rights, of the holders of the Common Shares without any further vote or action by the shareholders. Any series of Preferred Shares issued by the Board will have priority over the Common Shares in terms of dividend or liquidation rights or both. The issuance of Preferred Shares, or the issuance of rights to purchase Preferred Shares, could make it more difficult for a third party to acquire a majority of Neo's outstanding voting shares and thereby have the effect of delaying, deferring or preventing a change of control of Neo or an unsolicited acquisition proposal, and could make the removal of management more difficult. Additionally, the issuance of Preferred Shares may have the effect of decreasing the market price of the Common Shares.

Neo has no current intention to issue any Preferred Shares.

19.3 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 cancelled. The Share Purchase Plan terminates on June 18, 2024 and can be cancelled at Neo's discretion prior to the termination date.

For the year ended December 31, 2023, Neo repurchased and cancelled 3,186,140 shares for $19.9 million. There were no shares repurchased for the year ended December 31, 2022.

Neo has used up the allotment under the NCIB for up to 3,585,011 of its issued and outstanding common shares on February 29, 2024. Between January 1 and February 29, 2024, Neo repurchased and cancelled, 398,871 shares under the NCIB for a total consideration of $2.2 million. No shares are repurchased after February 29, 2024.

NOTE 20 EARNINGS PER SHARE

20.1 Weighted-average number of common shares - basic

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

	Year Ended December 31,	
	2023	**2022**
Common shares issued at beginning of period	45,196,921	40,668,902
Weighted average impact of:		
Issuance of common shares	8,374	1,324,036
Repurchase and cancellation of common shares under NCIB	(880,189)	—
Weighted average number of common shares for the year - basic	**44,325,106**	**41,992,938**

20.2 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:

	Year Ended December 31,	
	2023	2022
Weighted average number of common shares - basic	44,325,106	41,992,938
Dilutive effect of stock units	—	334,610
Weighted average number of common shares - diluted	**44,325,106**	**42,327,548**

20.3 (Loss) earnings 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 year ended December 31, 2023, and December 31, 2022.

	Year Ended December 31,	
	2023	2022
Net (loss) income attributable to equity holders of Neo Performance Materials Inc. - basic and diluted	$ (8,442)	$ 25,947

	Year Ended December 31,	
	2023	2022
(Loss) earnings per share - basic	$ (0.19)	$ 0.62
(Loss) earnings per share - diluted	$ (0.19)	$ 0.61

For the year ended December 31, 2023, all stock options, equity-settled RSUs and equity-settled PSUs were excluded because their effect would have been anti-dilutive (year ended December 31, 2022: 399,709 stock options, nil equity-settled RSUs, 97,000 equity-settled PSUs).

NOTE 21 INCOME TAXES

21.1 Income Tax Expense

	Year Ended December 31,	
	2023	2022
Current tax expense (benefit)		
Current year	$ 13,922	$ 16,947
Adjustments in respect of prior years	(583)	(163)
Total current tax expense	13,339	16,784
Deferred tax expense (benefit)		
Origination and reversal of temporary differences	(776)	1,490
Amount of benefit arising from previously unrecognized tax loss, used to reduce current tax expense	(533)	(340)
Amount of benefit arising from previously unrecognized deductible temporary differences	(347)	(141)
	(1,656)	1,009
Total income tax expense	**$ 11,683**	**$ 17,793**

21.2 Reconciliation of effective tax rate

	Year Ended December 31,	
	2023	2022
Income from operations before taxes and equity income of associates	6,170	41,428
Income tax expense at Canadian applicable tax rate of 26.5%	1,635	10,978
Impact of countries with different tax rates	2,983	(4,164)
Change in unrecognized tax losses and deductible temporary differences	4,717	2,914
Current tax benefit with respect to prior years	(583)	(163)
Foreign withholding taxes	1,472	2,675
Deferred tax benefit on foreign exchange translation of non-monetary items	(262)	(161)
Expenses not deductible for tax purposes	1,937	5,019
Other	(216)	695
Total income tax expense	**$ 11,683**	**$ 17,793**

21.3 Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items because it is not probable that future taxable profits will be available against which the benefit can be used:

	Year Ended December 31,	
	2023	2022
Deductible temporary differences	$ 26,477	$ 30,924
Tax losses	111,867	102,398
	$ 138,344	**$ 133,322**

Tax losses for which no deferred tax asset was recognized that will not expire totaled $6.1 million while $12.9 million expire between 2024 and 2028 and $92.9 million expire between 2029 and 2043.

21.4 Unrecognized deferred tax liabilities

At December 31, 2023 taxable temporary differences of $67.4 million related to the investment in subsidiaries were not recognized because Neo controls the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

21.5 Recognized deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Year Ended December 31,	
	2023	2022
Deferred tax assets		
Inventory	$ 1,253	$ 3,351
Property, plant and equipment and intangible assets	1,408	1,568
Accrued charges	4,375	923
Deferred compensation and retirement benefits	227	224
Net operating losses	1,193	5
Provisions	1,739	1,593
Other	1,575	4,228
Deferred tax liabilities		
Inventory	(776)	(306)
Property, plant and equipment and intangible assets	(10,904)	(9,835)
Foreign subsidiary earnings and withholding tax	(7,260)	(8,088)
Other	(364)	(649)
Deferred tax liabilities - net	**$ (7,534)**	**$ (6,986)**

Certain subsidiaries of Neo that generated losses during the current year, have recognized deferred tax assets of $5.5 million that will be utilized based on expected future taxable profits.

For balance sheet disclosure purposes, deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and Neo has the legal right and intent to offset, resulting in the following presentation:

	Year Ended December 31,	
	2023	2022
Deferred tax assets	6,760	$ 6,956
Deferred tax liabilities	(14,294)	(13,942)
Deferred tax liabilities - net	**$ (7,534)**	**$ (6,986)**

Movement in net deferred tax liabilities:

	Year Ended December 31,	
	2023	2022
Balance at the beginning of the year	$ (6,986)	$ (6,728)
Recognized in profit or loss	1,656	(1,010)
Acquisition of SGTec	(2,307)	—
Other	103	752
Balance at the end of the year	**(7,534)**	**(6,986)**

NOTE 22 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. The Special PSUs under the Legacy Plan and Additional PSUs under the LTIP, had all been cancelled as at December 31, 2018 as the liquidity event condition was not met. In 2021, Neo issued shares with respect to all outstanding RSUs and PSUs of the Legacy Pan (that had vested).

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.

On May 28, 2021, an omnibus long-term incentive plan (the "**Omnibus LTIP**") was approved by the Board and was subsequently approved by the shareholders at the Annual General and Special Meeting of Neo on June 29, 2021. Initial awards under the Omnibus LTIP were granted in September 2021.

During the year ended December 31, 2023, Neo granted 61,567 DSUs, 402,565 Options, 106,770 equity-settled RSUs, 266,890 equity-settled PSUs, 119,015 cash-settled RSUs, and 119,015 cash-settled PSUs under the Omnibus LTIP.

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	402,565	$ 6.32	106,770	266,890
Exercised	—	$ —	(28,699)	—
Expired/Forfeited	—	$ —	(3,978)	(9,907)
Outstanding, December 31, 2023	1,560,793	$ 9.77	144,425	472,138
Exercisable, December 31, 2023	986,051	$ 10.43	—	—
Weighted average exercise price, exercised during the period ended December 31, 2023	$ 10.43			
Weighted average remaining contractual life, December 31, 2023	4.16 years		1.85 years	1.30 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	(97,073)	—	(28,269)
Outstanding, December 31, 2023	177,058	238,355	194,989
Weighted average remaining contractual life, December 31, 2023	1.79 years	1.23 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
Key assumptions used for 2023 grants:				
Weighted average grant date fair value (per unit)	$ 2.34	$ 6.00	$ 6.00	$ 6.50
Dividend yield	5.0 %	— %	— %	— %
Expected volatility	53.9 %	— %	— %	— %
Risk-free interest rate	3.9 %	— %	— %	— %
Exercise price	$ 6.32	$ —	$ —	$ —
Forfeiture rate	— %	— %	— %	— %
Fair value of share-based compensation at grant date	$ 941	$ 1,355	$ 2,315	$ 400

	Options	RSUs	PSUs	DSUs
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

The following table shows the share-based compensation obligations recorded in the consolidated statement of financial position:

	December 31, 2023		December 31, 2022	
Accounts payable and other accrued charges	$	2,503	$	2,486
Contributed surplus		16,643		13,533
Total	**$**	**19,146**	**$**	**16,019**

The following table shows the share-based compensation expense recorded in the consolidated statements of profit or loss during the year ended December 31, 2023 and December 31, 2022:

	Year Ended December 31,			
	2023		2022	
Options	$	693	$	940
RSUs		856		882
PSUs		2,056		1,551
DSUs		133		(890)
Total	**$**	**3,738**	**$**	**2,483**

NOTE 23 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.

23.1 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:

	Year Ended December 31, 2023	2022
Purchase of goods and services from associates:		
TMT	$ 7,965	$ 4,798
Keli	32,199	87,528
GQD	3,498	18,700
Sales of goods and services to associates:		
TMT	11,407	9,888
Keli	—	1,374
GQD	12,394	—

23.2 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:

	Year Ended December 31, 2023	2022
Sale of goods to Toda	$ 2,568	$ 1,634
Purchase of goods from Qian Dong	3,111	1,658

23.3 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 year ended December 31, 2023, sales to Atatsu were $0.2 million. For the year ended December 31, 2022, sales to Atatsu were $1.3 million.

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

	Year Ended December 31, 2023	2022
Sale of goods and services to related parties	$ 30,122	$ 17,023
Purchase of goods and services from related parties	46,773	112,684

	December 31, 2023		December 31, 2022	
Trade balances:				
from related parties	$	4,043	$	2,374
due to related parties		(4,336)		(9,295)
Total	**$**	**(293)**	**$**	**(6,921)**

NOTE 24 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:

	Year Ended December 31,			
	2023		2022	
Directors	$	635	$	496
Key Executive Management		4,515		5,204
Total	**$**	**5,150**	**$**	**5,700**

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

	Year Ended December 31,			
	2023		2022	
Directors	$	(19)	$	(890)
Key Executive Management		2,056		2,783
Total	**$**	**2,037**	**$**	**1,893**

NOTE 25 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 year ended December 31, 2023 are summarized below:

	December 31, 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	2,333	8,451
Payments made, in the period	(180)	(986)
Currency translation adjustment	(106)	(788)
Balance, at the end of year	**$ 27,020**	**$ 24,973**
Current portion	**$ 823**	**$ 1,369**
Non-current portion	**$ 26,197**	**$ 23,604**

NOTE 26 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 27 FINANCE COSTS (INCOME)

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

	Year Ended December 31,	
	2023	2022
Change in fair value of equity securities (Note 13)	$ 565	$ 1,075
Change in fair value of derivative liabilities (Note 13)	7,187	13,866
Accretion expense on lease liabilities	229	121
Interest earned on bank deposits net of interest paid on bank advances	(1,729)	(586)
Interest expense on EDC credit facility	—	108
Interest expense on Estonia debt facility	146	111
Interest expense on China debt facility	46	469
Interest expense on German debt facility	155	95
Interest expense on Barclays debt facility	108	—
Total	**$ 6,707**	**$ 15,259**

For the year ended December 31, 2023, $2.6 million in interest expense relating to the EDC facility was capitalized into Property, Plant and Equipment in accordance with IAS 23 *Borrowing Costs*.

NOTE 28 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.

28.1 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.

28.2 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 at December 31, 2023:

	Chinese Renminbi	Euro	USD	Thai Baht	Canadian Dollar	British Pound
Cash and cash equivalents	$ 9,418	$ 3,732	$ 9,114	$ 7,498	$ 3,810	$ 809
Accounts receivable	1,794	2,015	5,154	2,868	31	406
Income taxes receivable	2	—	—	—	—	—
Other receivable	1,339	679	—	—	3	818
Bank advances and other short-term debt	—	—	—	—	—	—
Current portion of long-term debt	—	—	—	—	—	—
Long-term debt	—	—	—	—	—	(1,514)
Accounts payable and accrued liabilities	(1,192)	(14,088)	(21)	(1,845)	(1,354)	(1,260)
Lease obligations	(75)	(173)	—	(37)	174	—
Income taxes payable	(261)	(7,288)	—	(593)	—	(148)
Net financial assets (liabilities)	**$ 11,025**	**$(15,123)**	**$14,247**	**$ 7,891**	**$ 2,664**	**$ (889)**

The following table shows the impact of a one-percentage point strengthening or weakening of foreign currencies against the U.S. dollar as at December 31, 2023 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	$ 110	$ (151)	$ 79	$ 27	$ (9)
1% Weakening					
Net earnings before tax	(110)	151	(79)	(27)	9

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 $56 thousand gain or loss, respectively.

28.3 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 December 31, 2023, Neo had an outstanding bank loans of $25.0 million, representing the first tranche of EDC credit facility bearing interest rate equal to the SOFR, as administered by the Federal Reserve Bank of New York, plus an applicable margin. As well as $1.5 million of two term loan facilities with Barclays, which accrues interest at either a fixed or floating rate, as administered by the Bank of England bank rate, plus an applicable margin. Neo had no outstanding bank advances and other short-term loans with short-term maturities as at December 31, 2023. As a whole, Neo's exposure to interest rate risk is minimal.

28.4 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 December 31, 2023, 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 December 31, 2023, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

28.5 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 26**.** 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 December 31, 2023:

Financial liabilities	**1 year**	**2-3 years**	**4-5 years**	**Beyond 5 years**	**Total**
Accounts payable and other accrued charges	71,984	—	—	—	71,984
Derivative liability(1)	36,294	—	1,082	—	37,376
EDC credit facility(2)	2,108	4,239	17,469	—	23,816
Barclays bank loan facilities(3)	122	1,393			1,515
Provisions(4)	823	26,197	—	—	27,020
Lease obligations(5)	1,664	1,271	161	993	4,089
Other liabilities(6)	692	1,276	20	296	2,284
Total	**$ 113,687**	**$ 34,376**	**$ 18,732**	**$ 1,289**	**$ 168,084**

Notes:

(1) Represents the fair value of the put options on shares of the remaining shareholders of Buss & Buss and SGTec.

(2) Represents the first tranche of the EDC credit facility term loan.

(3) Represents SGTec's two term loan facilities in the amounts of $3.0 million (2.4 million 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.

(4) Represents management's best estimate of: a) the costs to be incurred by Neo for the disposal of the hazardous NORM currently being stored at Jiangyin Jiahua Advanced Material Resources Co., Ltd. ("**JAMR**") facility, and, b) an estimated damages provision related to legal proceedings (see "*Other Expenditures and Legal Contingencies*").

(5) Represents the present value of Neo's lease obligations for office space, land, office equipment and machinery.

(6) Primarily represents the estimated contingent consideration to be paid to the selling shareholders in accordance with their seller percentage in the event that SGTec's average adjusted EBITDA during the period April 1, 2023 to March 31, 2026 is greater than 2.0 million GBP.

NOTE 29 EMPLOYEE BENEFIT

The employee benefit expenses included in cost of sales, selling, general and administrative, and research and development expenses are $68.8 million and $61.9 million for the year ended December 31, 2023 and December 31, 2022, respectively. Included in these amounts are stock-based compensation expenses for employees of $3.6 million and $3.4 million for the year ended December 31, 2023 and December 31, 2022, respectively.

NOTE 30 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 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, $2.0 million (1.6 million GBP) of which was held in escrow, and was subsequently released on January 3, 2024 after certain terms and conditions were met.

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 a minimum of nil and a maximum of 5.4 million GBP and the payment will be made in 2026. This contingent consideration was estimated to be 0.5 million GBP ($0.7 million) as at the acquisition date.

Neo recorded provisional estimated fair values for the assets purchased, liabilities assumed and purchase consideration as of the date of the acquisition during the second quarter of 2023. In the fourth quarter of 2023, Neo finalized the purchase price allocation.

As of December 31, 2023, some of the changes which Neo has made, based on information available at the acquisition date, to the provisional purchase price allocation previously disclosed in the condensed consolidated financial statements for the three and nine months ended September 30, 2023, include an increase to Property, plant and equipment of $1.3 million, a decrease to Accounts payable and other accrued charges of $1.2 million, and an increase to Intangible assets of $0.4 million.

The fair values of the assets acquired and the liabilities assumed by NVEL in connection with the acquisition is as follows:

Consideration		
Cash	$	14,375
Receivable from selling shareholders on working capital adjustment		(827)
Contingent consideration liability		669
Total consideration	**$**	**14,217**

Cash and cash equivalents	$	755
Accounts receivable		4,141
Inventories		8,259
Property, plant and equipment		13,273
Intangible asset		448
Income taxes receivable		331
Other assets		1,975
Accounts payable and other accrued charges		(4,037)
Derivative liability (Note 13.1.2)		(1,580)
Other current liabilities		(9)
Deferred tax liabilities		(2,307)
Lease obligations		(1,948)
Long-term debt (Note 14.5)		(2,778)
Total net assets acquired	**$**	**16,523**
Less: Fair value of consideration transferred		(14,217)
Gain on bargain purchase	**$**	**2,306**

The gain on bargain purchase of $2.3 million has been recorded in Other income (expense) in Neo's Consolidated Statements of Profit or Loss for the year ended December 31, 2023. The bargain purchase is primarily the result of a portion of the consideration for the purchase being contingent on SGTec's financial performance over future fiscal years. The amount of this contingent consideration may reach a maximum of 5.4 million GBP, however, based on Neo's current outlook of SGTec's future fiscal performance, the contingent consideration has been estimated to be 0.5 million GBP ($0.7 million) as at the acquisition date.

Neo incurred total acquisition-related costs of $1.2 million. These costs have been included in selling, general and administrative expense in the 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 13.1.2).

This option was fair valued as at April 19, 2023 to be $1.6 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 consolidated statements of financial position.

The acquired business contributed revenues of $17.6 million and a net loss of $1.0 million to Neo for the period from April 19, 2023 to December 31, 2023. The following pro forma summary table presents consolidated information of Neo as if the business combination had been completed on January 1, 2023:

Combined results	Pro forma year ended December 31, 2023
Revenue	$ 577,700
Net loss	(7,325)

NOTE 31 SUBSEQUENT EVENT

Dividends payable to equity holders of Neo

On March 13, 2024, the Board of Directors declared a quarterly dividend of Cdn $0.10 per common share payable in cash on March 27, 2024, to common shareholders of record at the close of business on March 18, 2024.