



NEO PERFORMANCE MATERIALS INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED
SEPTEMBER 30, 2020**

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

	September 30, 2020	December 31, 2019
ASSETS		
Current		
Cash and cash equivalents	74,616	84,735
Restricted cash	4,035	4,185
Accounts receivable	44,654	44,297
Inventories (Note 5)	115,979	112,891
Income taxes receivable	2,182	1,460
Other current assets	12,552	14,230
Total current assets	254,018	261,798
Property, plant and equipment (Note 6)	75,193	94,490
Intangible assets (Note 7)	53,282	65,475
Goodwill (Note 8)	66,989	98,841
Investments (Note 9)	10,067	8,985
Deferred tax assets	2,407	805
Other non-current assets	839	837
Total non-current assets	208,777	269,433
Total assets	\$ 462,795	\$ 531,231
 LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt (Note 10)	74	54
Accounts payable and other accrued charges	63,353	56,138
Income taxes payable	2,161	4,756
Provisions	1,871	—
Lease obligations	1,310	1,660
Derivative liability (Note 10)	11,922	11,833
Other current liabilities	186	85
Total current liabilities	80,877	74,526
Employee benefits	1,828	2,031
Provisions	3,281	5,670
Deferred tax liabilities	13,666	15,894
Lease obligations	2,441	2,953
Other non-current liabilities	1,629	1,524
Total non-current liabilities	22,845	28,072
Total liabilities	103,722	102,598
Non-controlling interest	1,352	3,997
Equity attributable to equity holders of Neo Performance Materials Inc.	357,721	424,636
Total equity	359,073	428,633
Total liabilities and equity	\$ 462,795	\$ 531,231
Commitments and contingencies (Note 13)		
Subsequent events (Note 22)		

See accompanying notes

NEO PERFORMANCE MATERIALS INC.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	77,864	102,645	236,295	312,911
Costs of sales				
Costs excluding depreciation and amortization	57,395	74,669	174,824	227,840
Depreciation and amortization	1,996	2,546	7,431	7,309
Gross profit	18,473	25,430	54,040	77,762
Expenses				
Selling, general and administrative	10,938	11,383	37,589	29,928
Share-based compensation (Note 17)	973	73	916	377
Depreciation and amortization	1,797	1,971	5,851	5,970
Research and development	3,628	3,604	9,449	9,985
Impairment of assets	—	—	59,084	1,014
	17,336	17,031	112,889	47,274
Operating income (loss)	1,137	8,399	(58,849)	30,488
Other (expense) income	(92)	129	(65)	(465)
Finance cost, net	(99)	(353)	(3,362)	(2,044)
Foreign exchange loss	(128)	(662)	(440)	(970)
Income (loss) from operations before income taxes and equity income of associates	818	7,513	(62,716)	27,009
Income tax expense (Note 16)	(1,198)	(3,612)	(811)	(8,807)
(Loss) income from operations before equity income of associates	(380)	3,901	(63,527)	18,202
Equity income of associates (net of income tax) (Note 9)	781	171	1,082	390
Net income (loss)	\$ 401	\$ 4,072	\$ (62,445)	\$ 18,592
Attributable to:				
Equity holders of Neo Performance Materials Inc. ...	\$ 423	\$ 3,944	\$ (60,150)	\$ 18,281
Non-controlling interest	(22)	128	(2,295)	311
	\$ 401	\$ 4,072	\$ (62,445)	\$ 18,592
Earnings (Loss) per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic (Note 15)	\$ 0.01	\$ 0.10	\$ (1.60)	\$ 0.47
Diluted (Note 15)	\$ 0.01	\$ 0.10	\$ (1.60)	\$ 0.47

See accompanying notes

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income (loss) for the period	\$ 401	\$ 4,072	\$ (62,445)	\$ 18,592
Other comprehensive income (loss):				
Item that is or may be reclassified subsequently to profit or loss:				
Currency translation adjustment	5,273	(5,382)	3,552	(5,280)
Other comprehensive income (loss) for the period ..	5,273	(5,382)	3,552	(5,280)
Total comprehensive income (loss) for the period ..	\$ 5,674	\$ (1,310)	\$ (58,893)	\$ 13,312
Attributable to:				
Non-controlling interest	(19)	69	(2,302)	255
Equity holders of Neo Performance Materials Inc. . .	5,693	(1,379)	(56,591)	13,057
	\$ 5,674	\$ (1,310)	\$ (58,893)	\$ 13,312

See accompanying notes

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

	Nine Months Ended September 30,	
	2020	2019
Operating activities		
Net (loss) income for the period	\$ (62,445)	\$ 18,592
Add (deduct) items not affecting cash:		
Depreciation and amortization	13,282	13,279
Share-based compensation	916	377
Change in pension liability	(203)	(231)
Finance costs, net	3,362	2,044
Equity income of associates (Note 9)	(1,082)	(390)
Loss on disposal of assets	431	180
Income tax expense (Note 16)	811	8,807
Foreign exchange gain (loss)	(544)	187
Impairment of assets	59,084	1,014
Restructuring costs	—	756
Other	(332)	322
Net change in non-cash working capital balances related to operations (Note 12)	5,676	14,556
Income taxes paid	(7,988)	(10,792)
Interest received, net of interest paid	62	(15)
Cash provided by operating activities	\$ 11,030	\$ 48,686
Investing activities		
Additions of property, plant and equipment	(6,181)	(7,204)
Additions of intangible assets	(255)	(385)
Acquisition through business combination	—	(8,799)
Recovery from insurance claims	—	61
Decrease in restricted cash	252	116
Cash used in investing activities	\$ (6,184)	\$ (16,211)
Financing activities		
Increase in (repayment of) bank advances and other short-term debt, net	20	(3,970)
Dividends paid to non-controlling interest	(3,730)	(801)
Dividends paid to equity holders of Neo Performance Materials Inc.	(8,373)	(8,625)
Repurchase of common shares	(2,056)	(13,213)
Lease payments	(1,361)	(820)
Other financing activities	(294)	(267)
Cash used in financing activities	\$ (15,794)	\$ (27,696)
Effect of exchange rate changes on cash and cash equivalents	829	(935)
Cash (used) provided during the period	(10,119)	3,844
Cash and cash equivalents, beginning of period	84,735	71,015
Cash and cash equivalents, end of period	\$ 74,616	\$ 74,859

See accompanying notes

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

	Share Capital			Other Comprehensive Income (Loss)			Total			
	Common Stock		Retained Earnings (Deficit)	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains (net of tax)	Accumulated Other Comprehensive Income (Loss)	Equity Attributable to Equity Holders of NPM Inc.	Non-Controlling Interest	Equity
	Number	Amount								
Balance - January 1, 2020	37,798,956	\$ 38	\$ 27,571	\$ 403,765	\$ (7,394)	\$ 656	\$ (6,738)	\$ 424,636	\$ 3,997	\$ 428,633
Net loss	—	—	(60,150)	—	—	—	—	(60,150)	(2,295)	(62,445)
Other comprehensive income/(loss)	—	—	—	—	3,559	—	3,559	3,559	(7)	3,552
Total comprehensive income/(loss)	—	—	(60,150)	—	3,559	—	3,559	(56,591)	(2,302)	(58,893)
Adjustment to equity purchased from non-controlling interest	—	—	—	—	—	—	—	—	52	52
Share-based compensation	—	—	—	333	—	—	—	333	—	333
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(8,373)	—	—	—	—	(8,373)	—	(8,373)
Dividend distributions to non-controlling interest	—	—	—	—	—	—	—	—	(395)	(395)
Shares repurchased and canceled under Normal Course Issuer Bid	(281,452)	—	—	(2,056)	—	—	—	(2,056)	—	(2,056)
Issuance of common shares for Restricted Share Units exercised	58,370	—	—	(228)	—	—	—	(228)	—	(228)
	(223,082)	—	(8,373)	(1,951)	—	—	—	(10,324)	(343)	(10,667)
Balance - September 30, 2020	37,575,874	\$ 38	\$ (40,952)	\$ 401,814	\$ (3,835)	\$ 656	\$ (3,179)	\$ 357,721	\$ 1,352	\$ 359,073
Balance - January 1, 2019	39,650,340	\$ 40	\$ 16,132	\$ 420,653	\$ (5,146)	\$ 740	\$ (4,406)	\$ 432,419	\$ 4,758	\$ 437,177
Net earnings	—	—	18,281	—	—	—	—	18,281	311	18,592
Other comprehensive income/(loss)	—	—	—	—	(5,224)	—	(5,224)	(5,224)	(56)	(5,280)
Total comprehensive income/(loss)	—	—	18,281	—	(5,224)	—	(5,224)	13,057	255	13,312
Share-based compensation	—	—	—	179	—	—	—	179	—	179
Dividends paid to equity holders of Neo Performance Materials Inc.	—	—	(8,625)	—	—	—	—	(8,625)	—	(8,625)
Dividend distributions to non-controlling interest	—	—	—	—	—	—	—	—	(240)	(240)
Shares repurchased and canceled under Normal Course Issuer Bid (Note 14)	(1,479,806)	(1)	—	(13,212)	—	—	—	(13,213)	—	(13,213)
Issuance of common shares for Restricted Share Units exercised	51,247	—	—	(267)	—	—	—	(267)	—	(267)
	(1,428,559)	(1)	(8,625)	(13,300)	—	—	—	(21,926)	(240)	(22,166)
Balance - September 30, 2019	38,221,781	\$ 39	\$ 25,788	\$ 407,353	\$ (10,370)	\$ 740	\$ (9,630)	\$ 423,550	\$ 4,773	\$ 428,323

See accompanying notes

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

NOTE 1 NATURE OF OPERATIONS

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

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

Neo has approximately 1,800 employees and has a global platform that includes 11 manufacturing facilities located in China, the United States ("**U.S.**"), Germany, Canada, Estonia, Thailand and South Korea as well as two dedicated research and development ("**R&D**") centres in Singapore and the United Kingdom ("**UK**"). 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, 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 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 micro motors for household applications like vacuum cleaners, refrigerators, hair dryers, air conditioners and residential heating and cooling circulation pumps, industrial and other sensors, motors used in various automotive applications for hybrid, electric, and internal combustion engine ("**ICE**") vehicles, and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

C&O

The C&O segment manufactures and distributes a broad range of advanced industrial materials that have become an indispensable part of modern life. Neo's world-class processing and advanced materials manufacturing capabilities enable Neo to meet increasingly demanding specifications from manufacturers that need custom engineered

materials. Applications from these products include automotive catalysts, permanent magnets, consumer electronics, petroleum refining catalysts, medical devices, and wastewater treatment.

Rare Metals

The Rare Metals 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 unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These unaudited interim condensed consolidated financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") issued by the IASB for annual financial statements and should be read in conjunction with Neo's audited annual financial statements and accompanying notes for the year ended December 31, 2019. The significant accounting policies disclosed in Note 4 of Neo's audited annual financial statements for the year ended December 31, 2019 have been applied consistently in the preparation of these unaudited interim condensed consolidated financial statements.

The unaudited interim condensed consolidated financial statements were approved and authorized for issuance by Neo's Board of Directors ("**Board**") on November 13, 2020.

Significant management judgment in applying accounting policies

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

Given the magnitude and duration of the spread of the coronavirus ("**COVID-19**") pandemic and the negative impact it already has had on the global economy and financial markets, Neo has reviewed the estimates, judgments and assumptions used in the preparation of its financial statements, including with respect to the determination of whether indicators of impairment exist for its assets and cash generating units, the measurement of its expected credit losses, the net realizable value of inventory, and the fair value of the derivative liability.

In the second quarter of 2020, Neo made revisions to estimates, judgments and assumptions, mainly for impairment testing of goodwill and other non-financial assets ([Note 8](#)). For the three months ended September 30, 2020, no further revisions to these estimates, judgments and assumptions were considered necessary. The COVID-19 pandemic, the measures taken by governments of countries affected and the resulting economic impact may adversely affect Neo's financial performance, cash flows, and financial position, as well as that of its customers in future periods.

NOTE 3 BASIS OF PREPARATION

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

The preparation of these unaudited interim condensed consolidated financial statements in accordance with IAS 34 requires the use of certain accounting estimates. It also requires management to exercise judgment in applying Neo's accounting policies.

NOTE 4 RECENT ACCOUNTING PRONOUNCEMENTS

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

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

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

The new guidance will be effective for annual periods starting on or after January 1, 2022 and will be applied retrospectively, with earlier application permitted.

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

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

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

The amendments are effective for annual periods beginning on or after January 1, 2022 and apply to contracts existing at the date when the amendments are first applied. Early adoption is permitted.

4.3 COVID-19-Related Rent Concessions (Amendment to IFRS 16)

On May 28, 2020, the IASB issued amendments to IFRS 16 COVID-19-Related Rent Concessions to

- provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification;
- require lessees that apply the exemption to account for COVID-19-related rent concessions as if they were not lease modifications;

- require lessees that apply the exemption to disclose that fact; and
- require lessees to apply the exemption retrospectively in accordance with IAS 8, but not require them to restate prior period figures.

The amendment is effective for annual reporting periods beginning on or after June 1, 2020. Earlier application is permitted. The amendment is also available for interim reports.

4.4 Interest Rate Benchmark Reform - Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

On August 27, 2020, the IASB finalized its response to the ongoing reform of inter-bank offered rates ("IBOR") and other interest rate benchmarks by issuing a package of amendments to IFRSs. The amendments complement those issued in 2019 as part of Phase 1 amendments and mainly relate to:

- changes to contractual cash flows - a company will not have to derecognize the carrying amount of financial instruments for changes required by the reform, but will instead update the effective interest rate to reflect the change to the alternative benchmark rate;
- hedge accounting - a company will not have to discontinue its hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria; and
- disclosures - a company will be required to disclose information about new risks arising from the reform and how it manages the transition to alternative benchmark rates.

The amendments are effective for annual periods beginning on or after January 1, 2021 with earlier application permitted.

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

NOTE 5 INVENTORIES

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

	September 30, 2020	December 31, 2019
Raw materials	\$ 42,737	\$ 37,228
Work-in-progress	26,337	24,612
Finished goods	38,267	42,104
Supplies	8,638	8,947
Total	\$ 115,979	\$ 112,891

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

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	Land	Building & improvements	Machinery & Equipment	Right-of-use Assets	Office equipment	Construction in Progress (net of transfer)	Total
At January 1, 2020							
Cost	\$ 2,645	\$ 38,952	\$ 71,342	\$ 5,808	\$ 5,401	\$ 10,149	\$134,297
Accumulated depreciation	—	(9,658)	(26,794)	(1,114)	(2,241)	—	(39,807)
Opening net book value at January 1, 2020	\$ 2,645	\$ 29,294	\$ 44,548	\$ 4,694	\$ 3,160	\$ 10,149	\$ 94,490
IFRS 16 - Leases	—	—	—	563	—	—	563
Additions	—	9	875	—	298	4,999	6,181
Write-offs, net of cost and accumulated depreciation	—	(12)	(175)	(64)	(17)	(126)	(394)
Transfers	—	4,323	2,254	—	556	(7,133)	—
Currency translation adjustments	—	173	314	23	74	22	606
Impairment ⁽¹⁾	—	(9,158)	(4,231)	—	—	(3,284)	(16,673)
Depreciation expense	—	(1,898)	(5,947)	(1,133)	(602)	—	(9,580)
Closing net book value at September 30, 2020 ..	\$ 2,645	\$ 22,731	\$ 37,638	\$ 4,083	\$ 3,469	\$ 4,627	\$ 75,193

Comprised of:

Cost	\$ 2,645	\$ 34,500	\$ 70,127	\$ 6,258	\$ 6,379	\$ 4,627	\$124,536
Accumulated depreciation	—	(11,769)	(32,489)	(2,175)	(2,910)	—	(49,343)

Notes:

- (1) The negative economic impacts of COVID-19 were determined to be an impairment indicator during the second quarter of 2020 for all Neo's Cash Generating Units ("CGUs"). In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and the Rare Metals segments. As a result of impairment testing, an impairment charge was determined for the C&O and the Rare Metals segments and no impairment was needed for the Magnequench segment. After fully impairing goodwill in the C&O and Rare Metals segments, for the nine months ended September 30, 2020, Neo allocated a portion of the remaining impairment loss of \$12.1 million and \$4.6 million to property, plant, and equipment in the C&O and Rare Metals segments, respectively.

	Land	Building & improvements	Machinery & Equipment	Right-of-use Assets	Office equipment	Construction in Progress (net of transfer)	Total
At January 1, 2019							
Cost	\$ 3,150	\$ 36,256	\$ 61,726	\$ —	\$ 3,913	\$ 10,209	\$115,254
Accumulated depreciation	—	(7,012)	(19,571)	—	(1,708)	—	(28,291)
Opening net book value at January 1, 2019	\$ 3,150	\$ 29,244	\$ 42,155	\$ —	\$ 2,205	\$ 10,209	\$ 86,963
IFRS 16 - Leases	—	—	—	5,066	—	—	5,066
Acquisition through Business Combination	—	2,201	2,204	433	594	—	5,432
Additions	—	94	1,905	774	283	8,927	11,983
Write-offs, net of cost and accumulated depreciation	—	(16)	(187)	(76)	(10)	(356)	(645)
Transfers	—	1,203	6,759	—	654	(8,616)	—
Currency translation adjustments	—	(163)	(117)	(9)	(50)	(15)	(354)
Impairment ⁽¹⁾	(505)	(459)	—	—	—	—	(964)
Depreciation expense	—	(2,810)	(8,171)	(1,494)	(516)	—	(12,991)
Closing net book value at December 31, 2019	\$ 2,645	\$ 29,294	\$ 44,548	\$ 4,694	\$ 3,160	\$ 10,149	\$ 94,490
Comprised of:							
Cost	\$ 2,645	\$ 38,952	\$ 71,342	\$ 5,808	\$ 5,401	\$ 10,149	\$134,297
Accumulated depreciation	—	(9,658)	(26,794)	(1,114)	(2,241)	—	(39,807)

Notes:

- (1) The Rare Metals segment recorded a \$1.0 million impairment of assets related to the closure of NRM Utah in the year ended December 31, 2019 to recognize the assets based on their fair value less cost of disposal in accordance with IAS 36, Impairment of Assets.

NOTE 7 INTANGIBLE ASSETS

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

	Customer Relationships	License Agreements and Patents	Tradename	Total
At January 1, 2020				
Cost	\$ 71,328	\$ 4,031	\$ 6,000	\$ 81,359
Accumulated amortization	(15,450)	(434)	—	(15,884)
Opening net book value at January 1, 2020 ..	\$ 55,878	\$ 3,597	\$ 6,000	\$ 65,475
Additions	—	255	—	255
Disposals	—	(101)	—	(101)
Impairment ⁽¹⁾	(9,460)	—	—	(9,460)
Currency translation adjustments	762	53	—	815
Amortization expense	(3,393)	(309)	—	(3,702)
Closing net book value at September 30, 2020	\$ 43,787	\$ 3,495	\$ 6,000	\$ 53,282
Comprised of:				
Cost	\$ 63,092	\$ 4,245	\$ 6,000	\$ 73,337
Accumulated amortization	(19,305)	(750)	—	(20,055)

Notes:

- (1) The negative economic impacts of COVID-19 were determined to be an impairment indicator during the second quarter of 2020 for all Neo's CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and the Rare Metals segments. As a result of impairment testing, an impairment charge was determined for the C&O and the Rare Metals segments and no impairment was needed for the Magnequench segment. After fully impairing goodwill in the C&O and Rare Metals segments, for the nine months ended September 30, 2020, Neo allocated a portion of the remaining impairment loss of \$6.3 million and \$3.1 million to intangible assets in the C&O and Rare Metals segments, respectively.

	Customer Relationships	License agreements	Tradename	Total
At January 1, 2019				
Cost	\$ 70,748	\$ 1,154	\$ 6,000	\$ 77,902
Accumulated amortization	(11,005)	(176)	—	(11,181)
Opening net book value at January 1, 2019 ..	\$ 59,743	\$ 978	\$ 6,000	\$ 66,721
Acquisition through business combination	1,329	2,347	—	3,676
Additions	—	514	—	514
Currency translation adjustments	(444)	14	—	(430)
Amortization expense	(4,750)	(256)	—	(5,006)
Closing net book value at December 31, 2019	\$ 55,878	\$ 3,597	\$ 6,000	\$ 65,475
Comprised of:				
Cost	\$ 71,328	\$ 4,031	\$ 6,000	\$ 81,359
Accumulated amortization	(15,450)	(434)	—	(15,884)

NOTE 8 GOODWILL

	September 30, 2020	December 31, 2019
Opening balance as at January 1	\$ 98,841	\$ 99,365
Impairment	(32,951)	—
Acquisition through business combination	—	152
Currency translation adjustments	1,099	(676)
Ending balance	\$ 66,989	\$ 98,841

The outbreak of COVID-19 has caused significant deterioration in the economic conditions and a reduction in market capitalization for Neo and many other listed and non-listed companies globally. This was considered to be an impairment indicator for all CGUs as of June 30, 2020, requiring an impairment test to be performed in accordance with IAS 36 Impairment of Assets. The recoverable amounts for the CGUs was determined based on fair value less cost to sell for the Magnequench segment and value in use for the C&O and the Rare Metals segments. The calculations used a detailed five-year cash flow projection based on financial forecasts approved by management. Cash flows beyond the five-year period are extrapolated using the estimated annual average growth rates stated below. The forecasted cash flows were then discounted to calculate the present value of the cash flows expected to be derived from each CGU. This approach involves estimates and assumptions about revenue growth rates, operating margins, tax rates and discount rates. When a fair value less cost of disposal calculation was used, the fair value measurement was categorized as a Level 3 fair value based on significant unobservable inputs in the valuation technique used.

1. **The annual average revenue growth rate** is determined based on management's past experience in the industry, and ranged from 0.2% to 4.3% based on Neo's five-year financial plan. The cash flow forecasts at the end of the planning period were extrapolated using estimated long-term growth rates in the range of 1.4% to 4.0%.
2. **The discount rate** is determined in order to calculate the present value of the projected cash flows of the CGUs. A first indication for an appropriate asset-specific discount rate is the weighted average cost of capital ("WACC") of the business. The WACC is adjusted to reflect the specific risk profile of the respective CGUs. Neo has derived the WACC based on capital market data which involves separate analysis of the cost of equity and cost of debt, and taking into consideration the market risk premium related to each CGU. The discount rate ranged from 10.8% to 13.1% for Neo's CGUs at June 30, 2020 and 10.6% to 12.7% at December 31, 2019.

For the purpose of impairment testing, goodwill was allocated as follows:

	June 30, 2020	December 31, 2019
Magnequench	\$ 65,334	\$ 65,888
Chemicals & Oxides	16,668	16,667
Rare Metals	16,283	16,286
Total goodwill allocated	\$ 98,285	\$ 98,841

Intangible assets with an indefinite useful life are allocated to the following CGUs for the purpose of impairment testing:

	June 30, 2020	December 31, 2019
Magnequench	\$ 6,000	\$ 6,000

As a result of testing performed, the recoverable amount exceeded the carrying amount of the Magnequench segment. For the C&O and the Rare Metals segments, the carrying amount exceeded the recoverable amount by \$35.1 million and \$24.0 million respectively. As a result, Neo recorded an impairment charge at June 30, 2020 as follows:

	Chemicals & Oxides	Rare Metals	Total
Goodwill	\$ 16,668	\$ 16,283	\$ 32,951
Intangible assets	6,339	3,121	9,460
Property, plant and equipment	12,057	4,616	16,673
Total	\$ 35,064	\$ 24,020	\$ 59,084

At September 30, 2020, no indicators of impairment were identified, and therefore goodwill for the Magnequench segment has not been tested.

NOTE 9 INVESTMENTS

Neo holds a 25% ownership interest in Ganzhou Keli Rare Earth New Material Co., Ltd. ("**Keli**"), a company which converts rare earth oxides into metals for use in Magnequench Powders.

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

Neo also holds a 20% ownership interest in GQD Special Materials (Thailand) Co., Ltd. ("**GQD**"), a company which converts rare earth oxides into metals for use in Magnequench Powders.

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

Investments accounted for using the equity method are as follows:

	TMT	Keli	GQD	Total
Carrying value at January 1, 2020 ..	\$ 1,866	\$ 6,490	\$ 629	\$ 8,985
Share of results in associates	77	871	134	1,082
Carrying value at September 30, 2020	\$ 1,943	\$ 7,361	\$ 763	\$ 10,067
Carrying value at January 1, 2019 ..	\$ 1,745	\$ 6,404	\$ 456	\$ 8,605
Share of results in associates	121	86	173	380
Carrying value at December 31, 2019	\$ 1,866	\$ 6,490	\$ 629	\$ 8,985

NOTE 10 CATEGORIES OF FINANCIAL INSTRUMENTS

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

<u>Financial Assets</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Measured at amortized cost		
Cash and cash equivalents	\$ 74,616	\$ 84,735
Accounts receivable	44,654	44,297
Total financial assets	\$ 119,270	\$ 129,032
<u>Financial Liabilities</u>	<u>September 30, 2020</u>	<u>December 31, 2019</u>
Fair value through profit or loss		
Put option issued to non-controlling interest of Buss & Buss (Derivative liability)	\$ 11,922	\$ 11,833
Measured at amortized cost		
Current:		
Bank advances and other short-term debt	74	54
Accounts payable and other accrued charges	63,353	56,138
	<u>\$ 63,427</u>	<u>\$ 56,192</u>
Total financial liabilities	\$ 75,349	\$ 68,025

10.1 Derivative liability

As at September 30, 2020, Neo's derivative liability is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss Spezialmetalle GmbH ("**Buss & Buss**"). The Buss & Buss put option is related to a share purchase agreement ("**SPA**") between NMT Holdings GmbH, a German subsidiary of Neo, and the shareholders of Buss & Buss entered into on May 27, 2010. The SPA includes a call and a put option on shares of the remaining shareholder or his legal successors. If the call option is exercised by Neo, a premium is added to the consideration to purchase the underlying shares in Buss & Buss. If the put option is exercised by the non-controlling interest, a discount will reduce the cost basis of the securities sold to Neo. Although, the final amount of the put option is not known, the initial fair value of this obligation was determined by a third-party valuator based on information available at that time. The put option liability is subsequently re-measured at each reporting period based on 90% of the fair value and the change in the put option liability is recorded in the unaudited interim condensed consolidated statements of profit or loss.

No dividends were declared during the three months ended September 30, 2020. For the nine months ended September 30, 2020, Buss & Buss declared and paid \$6.7 million (Euro 6.0 million) of dividends to its shareholders (NMT Holdings GmbH and a non-controlling interest), respectively. In accordance with IAS 32, Neo has elected to record the dividend paid to its non-controlling interest of \$3.3 million as a finance expense for the nine months ended September 30, 2020.

For the three months ended September 30, 2020, the re-measurement of the put option resulted in a \$0.1 million increase in the put option liability due to an increase of \$0.1 million related to changes in fair value assumptions. The \$0.1 million increase in the fair value of the put option liability was recorded as a finance expense for the three months ended September 30, 2020.

For the nine months ended September 30, 2020, the re-measurement of the put option resulted in a \$0.1 million increase to the put option liability due to an increase of \$3.1 million related to changes in fair value assumptions and a decrease of \$3.0 million related to the dividends paid. The \$0.1 million increase in the fair value of the put option liability was recorded as finance expense for the nine months ended September 30, 2020.

For the three and nine months ended September 30, 2019, the increase in the fair value of the derivative liability of \$0.4 million and \$2.0 million, respectively, as a result of changes in fair value assumptions was recorded as a finance expense.

10.2 Financial assets and liabilities measured at fair value

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

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

The level in which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the unaudited interim condensed consolidated statements of financial position as at September 30, 2020, are grouped into the fair value hierarchy as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial Liabilities:			
Put option issued to non-controlling interest of Buss & Buss	\$ —	\$ —	\$ 11,922

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

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

There have been no transfers between levels for the period ended September 30, 2020.

10.3 Bank advances, short-term loan and debt

10.3.1 Chinese bank advances

As of September 30, 2020, there is no amount outstanding on the line of credit in China.

10.3.2 German debt facility

As at September 30, 2020, Buss & Buss has a \$6.5 million (€5.5 million) revolving line of credit which can be drawn either in Euros or U.S. dollars. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate ("**Euribor**") average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling shareholder of Buss & Buss amounting to \$0.29 million (€0.25 million) as well as a lien amounting to \$0.59 million (€0.50 million) on certain property, plant and equipment. The remainder of the revolving line of credit is secured by certain working capital of Buss & Buss.

As at September 30, 2020, \$0.1 million (€0.1 million) was drawn from the revolving line of credit.

There are no financial covenants which need to be met.

NOTE 11 OPERATING SEGMENTS

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

A comparative breakdown of business segment information is as follows:

For the three months ended September 30, 2020:

	<u>Magnequench</u>	<u>Chemicals & Oxides</u>	<u>Rare Metals</u>	<u>Corporate</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
External revenue	\$ 31,620	\$ 32,631	\$ 13,613	\$ —	\$ 77,864	\$ —	\$ 77,864
Inter-segment revenue	—	3,400	—	—	3,400	(3,400)	—
Total revenue	\$ 31,620	\$ 36,031	\$ 13,613	\$ —	\$ 81,264	\$ (3,400)	\$ 77,864
Operating income (loss) ..	\$ 2,965	\$ 3,145	\$ (892)	\$ (4,047)	\$ 1,171	\$ (34)	\$ 1,137
Other expense							(92)
Finance costs, net							(99)
Foreign exchange loss							(128)
Income from operations before income taxes and equity income (loss) of associates							\$ 818
Reconciliation to Adjusted OIBDA:							
Operating income (loss) ..	\$ 2,965	\$ 3,145	\$ (892)	\$ (4,047)	\$ 1,171	\$ (34)	\$ 1,137
Depreciation and amortization	2,233	763	713	84	3,793	—	3,793
Share and value-based compensation ⁽¹⁾	46	(12)	—	897	931	—	931
Other non-recurring costs (recoveries) ⁽²⁾ ..	—	—	—	(131)	(131)	—	(131)
Adjusted OIBDA⁽³⁾	\$ 5,244	\$ 3,896	\$ (179)	\$ (3,197)	\$ 5,764	\$ (34)	\$ 5,730
Capital expenditures	\$ 2,694	\$ 438	\$ 275	\$ —	\$ 3,407	\$ —	\$ 3,407

Notes:

- (1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP, and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation recovery of \$42 thousand is included in selling, general, and administration expense for the three months ended September 30, 2020.

- (2) These represents primarily legal, professional advisory fees and other transaction costs incurred/(recovered) with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.
- (3) Certain items are excluded from operating income (loss) to determine Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

For the nine months ended September 30, 2020:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	\$ 100,413	\$ 88,290	\$ 47,592	\$ —	\$ 236,295	\$ —	\$ 236,295
Inter-segment revenue	—	6,599	—	—	6,599	(6,599)	—
Total revenue	\$ 100,413	\$ 94,889	\$ 47,592	\$ —	\$ 242,894	\$ (6,599)	\$ 236,295
Operating income (loss) ..	\$ 11,925	\$ (31,629)	\$ (25,797)	\$ (13,239)	\$ (58,740)	\$ (109)	\$ (58,849)
Other expense							(65)
Finance costs, net							(3,362)
Foreign exchange loss							(440)
Loss from operations before income taxes and equity income (loss) of associates							\$ (62,716)

Reconciliation to Adjusted OIBDA:

Operating income (loss) ..	\$ 11,925	\$ (31,629)	\$ (25,797)	\$ (13,239)	\$ (58,740)	\$ (109)	\$ (58,849)
Depreciation and amortization	6,642	3,497	2,891	252	13,282	—	13,282
Share and value-based compensation ⁽¹⁾	(43)	(85)	(6)	794	660	—	660
Impairment of assets ⁽²⁾	—	35,064	24,020	—	59,084	—	59,084
Other non-recurring costs (recoveries) ⁽³⁾ ..	—	—	—	2,389	2,389	—	2,389
Adjusted OIBDA ⁽⁴⁾	\$ 18,524	\$ 6,847	\$ 1,108	\$ (9,804)	\$ 16,675	\$ (109)	\$ 16,566
Capital expenditures	\$ 4,345	\$ 1,330	\$ 761	\$ —	\$ 6,436	\$ —	\$ 6,436

Notes:

- (1) Represents share and value-based compensation expense in respect of the Legacy Plan, the LTIP, and the long-term value bonus plan, which has similar vesting criteria to the share-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. Value-based compensation recovery of \$0.3 million is included in selling, general, and administration expense for the nine months ended September 30, 2020.
- (2) The negative economic impacts of COVID-19 were determined to be an impairment indicator as of June 30, 2020 for all Neo's CGUs. In accordance with IAS 36 Impairment of Assets, the recoverable amount of Neo's CGUs was determined based on fair value less cost of disposal for the Magnequench segment and value in use for the C&O and Rare Metals segments. As a result of the impairment test, Neo recognized an impairment charge of \$59.1 million for the nine months ended September 30, 2020, with \$35.1 million attributable to the C&O segment and \$24.0 million attributable to the Rare Metals segment. No impairment was recorded against the Magnequench segment.
- (3) These represents primarily legal, professional advisory fees and other transaction costs incurred/(recovered) with respect to non-operating capital structure related transactions and restructuring costs related to management team changes. Neo has removed these charges to provide comparability with historic periods.
- (4) Certain items are excluded from operating income (loss) to determine Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

For the three months ended September 30, 2019:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	\$ 42,024	\$ 38,121	\$ 22,500	\$ —	\$ 102,645	\$ —	\$ 102,645
Inter-segment revenue	—	4,348	—	—	4,348	(4,348)	—
Total revenue	\$ 42,024	\$ 42,469	\$ 22,500	\$ —	\$ 106,993	\$ (4,348)	\$ 102,645
Operating income (loss) ...	\$ 6,135	\$ 5,134	\$ (155)	\$ (2,929)	\$ 8,185	\$ 214	\$ 8,399
Other income							129
Finance costs, net							(353)
Foreign exchange loss							(662)
Income from operations before income taxes and equity income (loss) of associates							\$ 7,513
Reconciliation to Adjusted OIBDA:							
Operating income (loss) ...	\$ 6,135	\$ 5,134	\$ (155)	\$ (2,929)	\$ 8,185	\$ 214	\$ 8,399
Depreciation and amortization	1,974	1,358	1,101	84	4,517	—	4,517
Share and value-based compensation ⁽¹⁾	(3)	51	17	88	153	—	153
Other non-recurring costs ⁽²⁾	218	—	—	(501)	(283)	—	(283)
Adjusted OIBDA⁽³⁾	\$ 8,324	\$ 6,543	\$ 963	\$ (3,258)	\$ 12,572	\$ 214	\$ 12,786
Capital expenditures ⁽⁴⁾	\$ 10,745	\$ 722	\$ 1,136	\$ —	\$ 12,603	\$ —	\$ 12,603

Notes:

- (1) Represents share and value based compensation expense in respect of the Legacy Plan and a long-term value bonus plan computed in the same manner as the share-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value-based compensation expense of \$0.1 million was included in selling, general, and administration expense for the three months ended September 30, 2019.
- (2) These represents legal, professional advisory fees and other transaction costs incurred/(recovered) with respect to non-operating capital structure related transactions. These net recoveries were included in selling, general, and administration expense.
- (3) Certain items are excluded from operating income (loss) to determine Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.
- (4) Capital expenditures includes \$9.7 million related to the assets acquired through a business combination.

For the nine months ended September 30, 2019:

	Magnequench	Chemicals & Oxides	Rare Metals	Corporate	Total for reportable segments	Eliminations	Total
External revenue	\$ 131,052	\$ 112,801	\$ 69,058	\$ —	\$ 312,911	\$ —	\$ 312,911
Inter-segment revenue	—	11,775	—	—	11,775	(11,775)	—
Total revenue	\$ 131,052	\$ 124,576	\$ 69,058	\$ —	\$ 324,686	\$ (11,775)	\$ 312,911
Operating income (loss) ...	\$ 21,780	\$ 15,456	\$ (369)	\$ (7,028)	\$ 29,839	\$ 649	\$ 30,488
Other expense							(465)
Finance costs, net							(2,044)
Foreign exchange loss							(970)
Income from operations before income taxes and equity income (loss) of associates							\$ 27,009
Reconciliation to Adjusted OIBDA:							
Operating income (loss) ...	\$ 21,780	\$ 15,456	\$ (369)	\$ (7,028)	\$ 29,839	\$ 649	\$ 30,488
Depreciation and amortization	5,873	3,696	3,457	253	13,279	—	13,279
Share and value-based compensation ⁽¹⁾	(363)	(697)	(151)	(62)	(1,273)	—	(1,273)
Impairment of assets ⁽²⁾	—	—	1,014	—	1,014	—	1,014
Other non-recurring costs (recoveries) ⁽³⁾	218	—	—	(2,450)	(2,232)	—	(2,232)
Adjusted OIBDA ⁽⁴⁾	\$ 27,508	\$ 18,455	\$ 3,951	\$ (9,287)	\$ 40,627	\$ 649	\$ 41,276
Capital expenditures ⁽⁵⁾	\$ 12,079	\$ 2,537	\$ 2,625	\$ —	\$ 17,241	\$ —	\$ 17,241

Notes:

- (1) Represents share and value based compensation expense in respect of the Legacy Plan and a long-term value bonus plan computed in the same manner as the share-based plan and is settled in cash relating to non-executives and non-North Americans where implementation of a share settlement plan would have been prohibitively expensive in terms of administration and compliance. The value-based compensation recovery of \$1.7 million was included in selling, general, and administration expense for the nine months ended September 30, 2019.
- (2) The \$1.0 million impairment in the Rare Metals division represents impairment of property, plant and equipment and other assets related to the closure of NRM Utah that will not be utilized as a result of the closure.
- (3) In December 2018, Neo entered into an arrangement agreement with Luxfer Holdings plc ("**Luxfer**") and 2671219 Ontario Inc. (the "**Purchaser**"), a wholly-owned subsidiary of Luxfer, pursuant to which, the Purchaser would acquire the issued and outstanding common shares of Neo for a combination of cash and stock (the "**Luxfer Transaction**"). On March 10, 2019, Luxfer and Neo mutually agreed to terminate the Luxfer Transaction. The non-recurring costs represents legal, professional advisory fees and other transaction costs incurred netted with the amounts recoverable from Luxfer for the termination of the Luxfer Transaction. These net recoveries were included in selling, general, and administration expense.
- (4) Certain items are excluded from operating income (loss) to determine Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.
- (5) Capital expenditures includes \$9.7 million related to the assets acquired through a business combination.

As at September 30, 2020:

	<u>Magnequench</u>	<u>Chemicals & Oxides</u>	<u>Rare Metals</u>	<u>Corporate</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
Total assets	\$ 254,215	\$ 122,314	\$ 74,422	\$ 11,876	\$ 462,827	\$ (32)	\$ 462,795
Investment in equity method associates	10,067	—	—	—	10,067	—	10,067
Total liabilities	(39,540)	(31,994)	(21,745)	(10,443)	(103,722)	—	(103,722)

As at December 31, 2019:

	<u>Magnequench</u>	<u>Chemicals & Oxides</u>	<u>Rare Metals</u>	<u>Corporate</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
Total assets	\$ 245,882	\$ 166,724	\$ 105,279	\$ 13,269	\$ 531,154	\$ 77	\$ 531,231
Investment in equity method associates	8,985	—	—	—	8,985	—	8,985
Total liabilities	(37,822)	(29,618)	(24,274)	(10,884)	(102,598)	—	(102,598)

The geographic distribution of Neo's revenue based on the location of its customers for the three and nine months ended September 30, 2020 and 2019 are summarized as follows:

<u>Revenue</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Asia:				
China	\$ 28,903	\$ 35,657	\$ 74,421	\$ 95,871
Japan	15,708	15,730	42,919	48,171
Thailand	2,952	4,056	9,043	11,348
South Korea	1,063	2,724	4,128	8,552
North America	11,149	20,495	40,024	67,927
Europe	16,144	22,404	58,148	75,053
Other	1,945	1,579	7,612	5,989
Total	\$ 77,864	\$ 102,645	\$ 236,295	\$ 312,911

Revenue from one significant customer accounts for \$9.3 million and \$31.9 million of Neo's total revenue for the three and nine months ended September 30, 2020, respectively, and \$14.7 million and \$47.7 million for the three and nine months ended September 30, 2019, respectively. Neo defines significant customers as those that generate 10% or more of consolidated revenue.

NOTE 12 SUPPLEMENTAL CASH FLOW INFORMATION

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

	Nine Months Ended September 30,	
	2020	2019
Decrease (increase) in assets:		
Accounts receivable	\$ (180)	\$ 1,029
Inventories	(2,292)	23,981
Other assets	1,720	2,683
Increase (decrease) in liabilities:		
Accounts payable and other accrued charges	6,329	(12,409)
Other liabilities	99	(728)
Total net change	\$ 5,676	\$ 14,556

NOTE 13 COMMITMENTS AND CONTINGENCIES

13.1 Commitments

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

13.2 Legal contingencies

Neo operates in a high technology and advanced engineering product environment in which many patents have been issued over time. The subsidiaries of Neo are currently, and may in the future become, involved in legal proceedings alleging patent infringement. At present, Neo is defending against patent infringement legal proceedings filed in Germany, the United Kingdom, and the People's Republic of China. Additionally, Neo has initiated proceedings to invalidate certain patents of Neo's competitors issued in these same jurisdictions.

There are many factors that make it difficult to estimate the impact of a particular lawsuit on Neo, including, among others, being in the early stage of a proceeding when the claimant is not required to specifically identify the manner in which the patent has allegedly been infringed; damages sought that are unspecified, unsupported, unexplained or uncertain; discovery not having been started or still incomplete; the complexity of the facts that are in dispute (e.g., the analysis of the patent and a comparison to the activities of Neo is a labor-intensive and highly technical process); the difficulty of assessing novel claims or legal arguments, and; the parties not having engaged in any meaningful settlement discussions. Management is required to apply judgment with respect to estimating the potential impact of the ongoing patent litigation on Neo. Potential impacts to Neo include, but are not limited to, the possibility of an injunction prohibiting Neo from manufacturing, distributing, marketing or selling products that are found to infringe on an unexpired patent; potential damages, attorney's fees and costs that Neo could be ordered to pay if it is found to have infringed on a patent, and; damage to Neo's reputation with key customers, or prospective customers, from a finding of patent infringement.

Of the various lawsuits initiated and underway, the German Courts have ruled that certain of Neo Chemicals & Oxides (Europe) Ltd.'s ("**Neo C&O (Europe)**") products infringed four expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1 ("**846**"), European patent #0605274 ("**274**"), and European patent #0955267 B1 ("**267**"). Neo C&O (Europe) filed an appeal in each of the four infringement actions and the appeals are still pending with respect to 846, 274 and 267. Neo C&O (Europe) withdrew its appeal of the 984 infringement judgment after Rhodia withdrew part of its infringement claim in this case. Neo C&O (Europe) was ordered to provide information related to the calculation of damages, but as yet there has been no determination of damages in any of the German infringement lawsuits.

Neo C&O (Europe) challenged the validity of patents 984, 846 and 274 before the German Federal Patent Court, which upheld patents 984 and 846, but invalidated patent 274. Both Neo C&O (Europe) and Rhodia appealed the rulings of the German Federal Patent Court to the German Supreme Court. The German Supreme Court has upheld the validity of patents 984, 846 and 274 but narrowed the scope of all three patents. Neo C&O (Europe) also filed actions in the German Federal Patent Court challenging the validity of 267, European patent #1527018 ("**018**") and European patent #2007682 ("**682**"). The German Federal Patent Court upheld the validity of 267, but that ruling is still subject to Neo's right to file an appeal. Neo's lawsuits to invalidate 018 and 682 are still pending.

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed three unexpired patents: 018, 682, and European patent #2523907 ("**907**"). In September 2020, Neo C&O (Europe) was found to infringe 018 in Germany by the Düsseldorf Regional Court. Neo and Rhodia have both appealed this ruling, and the appeals are still pending. The Düsseldorf Regional Court has stayed Rhodia's case alleging infringement of 682, pending the outcome of Neo's action before the German Federal Patent Court to invalidate 682. The 907 action was initiated at the beginning of July 2020, and is scheduled to go to trial in September 2021.

In December 2017, the Regional Court of Mannheim (Germany) determined that certain of Neo C&O (Europe)'s products infringed a German patent (European & UK patents #1435338 B1 ("**338**")), and an injunction prohibiting the sale of affected products into Germany was granted. Neo C&O (Europe) has appealed the decision. In January 2019, the Federal Patent Court in Munich revoked the German designation of patent 338. The Higher Regional Court of Karlsruhe granted Neo C&O (Europe)'s request for a stay of the injunction, subject to the requirement that Neo provide financial security. Rhodia has appealed the invalidation of patent 338 by the German Federal Patent Court and the appeal is pending.

In April 2018, the UK Court 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. A trial on Rhodia's claim for damages in the UK is scheduled for January 2022.

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

On September 26, 2018, the PRB again ruled in favor of ZAMR by invalidating all product claims associated with patent ZL 200710146613.6, held by Daiichi Kigenso Kagaku Kogyo Co. ("**DKKK**"). The PRB upheld the validity of Claim 4, which is a method claim. On October 24, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by DKKK and Rhodia Operations alleging infringement of patent ZL 200710146613.6. On November 22, 2019, the Shandong Higher Court reversed the ruling of the Zibo Intermediate Court and ordered that the case be transferred to the Ji'nan Intermediate Court for a trial on alleged infringement of Claim 4.

In January 2019, the PRB ruled in favor of ZAMR by invalidating all patent claims associated with patent ZL 97195463.1. On February 28, 2019, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit

by Rhodia Operations and DKKK alleging infringement of patent ZL 97195463.1. Rhodia Operations and DKKK have appealed these decisions. In April 2020, the Beijing IP Court upheld the PRB's ruling that invalidated all patent claims. Rhodia Operations has appealed this ruling to the Supreme People's Court.

On March 4, 2019, the PRB ruled in favor of ZAMR by invalidating all patent claims associated with patent ZL 02822106.0, which is equivalent to European Patent 338. Solvay Japan has appealed this decision.

The following infringement proceedings are ongoing. These proceedings are at various stages of court proceeding including being at pre-trial stage, within infringement proceedings, as well as invalidity proceedings.

Patent Reference	Jurisdiction of Claim	Specified Damages by Claimant
Chinese patent ZL 03817110.4	China	\$2.8 million
Chinese patent ZL 200710146613.6	China	\$2.1 million
European patent 0863846 B1	Germany	} \$8.7 million
European patent 0735984 B1	Germany	
European patent 0605274 B1	Germany	
Chinese patent ZL 97195463.1	China	\$0.7 million
European & UK patents 1435338 B1	UK	Not specified
European & UK patents 1435338 B1	Germany	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified
European patent 2523907	Germany	Not specified

Management has made an assessment, based on its interpretation of the claims as to the quantum of the appropriate provision for certain claims. Such a provision is based on management's best estimate, as damages are uncertain and are subject to judicial determination. Management's assessment, based on its interpretation of the claims, the limited facts available at this time and independent legal advice, is that for all other claims it is not probable that an outflow of resources will be required in settling these claims and no provision has been made. Future developments in these cases could cause management to change its assessment.

Management does not have sufficient information to comment on the quantum or methodology of the damages sought by the claimants including with respect to potential duplicity of the parts affected. Management's view on specified damages could be materially different than those proposed by the claimant in each case.

Neo intends to defend itself vigorously in all cases. In light of the inherent uncertainties in litigation there can be no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued for those cases for which an estimate can be made. Losses in connection with any litigation for which management is not presently able to reasonably estimate any potential loss, or range of loss, could be material to Neo's results of operations and financial condition.

NOTE 14 SHARE CAPITAL

	September 30, 2020	December 31, 2019
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	37,575,874	37,798,956
Total treasury shares	—	—

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

Normal Course Issuer Bid

On May 14, 2020, Neo announced that the TSX had accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**Bid**") for up to 1,883,637 of its issued and outstanding common shares. In connection with the Bid, Neo has entered into an automatic share purchase plan with its designated broker to allow for purchases of its shares (the "**Share Purchase Plan**"). The Share Purchase Plan is considered an "automatic plan" for purposes of applicable Canadian securities laws. Under the Share Purchase Plan, Neo's broker may purchase shares on any trading day during the Bid, including during self-imposed trading blackout periods. The price that Neo will pay for any shares purchased under the Bid will be the prevailing market price at the time of purchase. Any shares purchased by Neo will be canceled. The Share Purchase Plan will terminate on May 18, 2021. A previously announced normal course issuer bid expired on March 23, 2020.

For the three and nine months ended September 30, 2020, Neo repurchased and canceled 105,552 and 281,452 shares for a total consideration of \$0.8 million and \$2.1 million, respectively. For the three and nine months ended September 30, 2019, Neo repurchased and canceled 670,649 and 1,479,806 shares under a previously announced normal course issuer bid for a total consideration of \$5.7 million and \$13.2 million, respectively.

NOTE 15 EARNINGS PER SHARE

15.1 Basic earnings per share

The calculation of basic earnings per share was based on net income attributable to equity holders of Neo for the three and nine months ended September 30, 2020, and 2019. The weighted average number of shares outstanding is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Common shares issued at beginning of period	37,623,056	38,841,183	37,798,956	39,650,340
Weighted average impact of:				
Issuance of common shares	31,947	14,483	10,727	4,881
Repurchase and cancellation of common shares under Normal Course Issuer Bid	(44,157)	(333,350)	(137,962)	(537,656)
Weighted average number of common shares for the period - basic	37,610,846	38,522,316	37,671,721	39,117,565

15.2 Diluted earnings per share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net (loss) income attributable to equity holders of Neo Performance Materials Inc. - basic and diluted	\$ 423	\$ 3,944	\$ (60,150)	\$ 18,281
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Weighted average number of common shares - basic	37,610,846	38,522,316	37,671,721	39,117,565
Dilutive effect of Stock Units	42,961	130,595	—	174,355
Weighted average number of common shares - diluted	37,653,807	38,652,911	37,671,721	39,291,920
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Loss) Earnings per share - basic	\$ 0.01	\$ 0.10	\$ (1.60)	\$ 0.47
(Loss) Earnings per share - diluted	\$ 0.01	\$ 0.10	\$ (1.60)	\$ 0.47

For the three and nine months ended September 30, 2020, 915,816 (2019: 915,816) equity-settled PSUs were excluded from the dilutive weighted-average number of ordinary shares calculation as they are contingently issuable

upon a liquidity event occurring and achieving certain shareholders' internal milestones which were not met as at September 30, 2020.

For the nine months ended September 30, 2020, 1,445 equity-settled RSUs, respectively, were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

For the three months ended September 30, 2020, 1,219,877 (2019: 1,158,712) stock options were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive. For the nine months ended September 30, 2020, 1,219,877 (2019: nil) stock options were excluded from the dilutive weighted-average number of ordinary shares calculation because their effect would have been anti-dilutive.

NOTE 16 INCOME TAXES

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

For the three and nine months ended September 30, 2020, Neo had an income tax expense of \$1.2 million and \$0.8 million, respectively, on income from operations before taxes of \$0.8 million for the three months ended September 30, 2020 and loss from operations before taxes of \$62.7 million for the nine months ended September 30, 2020. For the three and nine months ended September 30, 2019, Neo had an income tax expense of \$3.6 million and \$8.8 million, respectively, on income from operations before taxes of \$7.5 million and \$27.0 million.

Neo's effective tax rate was 146.5% and (1.3)% for the three and nine months ended September 30, 2020, respectively, and 48.1% and 32.6% for the three and nine months ended September 30, 2019. These effective tax rates are not considered meaningful indicators of normal earnings-based cash taxes due to the impairment charge in the nine months ended September 30, 2020 and the relatively small amount of net income in the three months ended September 30, 2020.

The increase in effective tax rate for the three months ended September 30, 2020 is due primarily to the benefit of certain tax losses not being recognized and losses being recognized in tax jurisdictions with low effective tax rates.

The decrease in effective tax rate for the nine months ended September 30, 2020 relates primarily to the impairment in the second quarter of goodwill of \$33.0 million which is not deductible for tax purposes and the \$8.5 million impairment of intangible assets and property, plant and equipment in a jurisdiction for which there was no tax benefit. The impairments increased the loss from operations without any corresponding tax benefit, resulting in a reduction to the effective tax rate.

NOTE 17 SHARE-BASED COMPENSATION

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 Restricted Share Units ("RSUs") and Performance Stock Units ("PSUs") under the LTIP.

The following table shows the share-based compensation expense (recovery) recorded in the unaudited interim condensed consolidated statements of profit or loss during the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Options	\$ 44	\$ 92	\$ 150	\$ 152
RSUs	318	140	363	(43)
PSUs	100	(66)	43	71
DSUs	511	(93)	360	197
Total	\$ 973	\$ 73	\$ 916	\$ 377

Neo granted 54,194 DSUs, 61,165 Options, 122,325 RSUs and 122,325 PSUs on August 12, 2020. Only the Options are equity settled. Neo granted 32,783 DSUs on June 24, 2019 and 60,177 RSUs on September 18, 2019. 61,832 RSUs were forfeited in the three months ended September 30, 2020, 5,567 of which were equity settled.

NOTE 18 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.

18.1 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.

For the three and nine months ended September 30, 2020, Neo purchased \$0.3 million and \$0.9 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$11.5 million and \$26.2 million, and received services from GQD amounting to \$0.2 million and \$1.4 million, respectively.

For the three and nine months ended September 30, 2020, Neo sold Magnequench Powders and performed services, respectively, amounting to \$1.0 million and \$2.6 million to TMT. For the three and nine months ended September 30, 2020, Neo sold oxides to Keli amounting to \$0.6 million and \$0.8 million, respectively.

For the three and nine months ended September 30, 2019, Neo purchased \$0.4 million and \$1.2 million worth of compounds from TMT, purchased metals and received services from Keli amounting to \$6.6 million and \$25.7 million, and received services from GQD amounting to \$0.2 million and \$0.7 million, respectively.

For the three and nine months ended September 30, 2019, Neo sold Magnequench Powders and performed services, respectively, amounting to \$1.1 million and \$3.2 million to TMT. There were no oxides sales to Keli for the three months ended September 30, 2019. For the nine months ended September 30, 2019, Neo sold oxides to Keli amounting to \$1.2 million.

18.2 Transactions with joint venture partners

Neo, through its sales company in Japan, Neo Japan Inc., has occasionally purchased Gallium from Beijing Jiya Semiconductor Material Co., Ltd. ("**Beijing Jiya**") for resale to third party customers. No purchases were made in the three and nine months ended September 30, 2020 and 2019.

Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. ("**Qian Dong**") and Toda Kogyo Corp. ("**Toda**"). For the three and nine months ended September 30, 2020, purchases from Qian Dong were nominal. There were no sales to Toda for the three months ended September 30, 2020. For the nine months ended September 30, 2020, sales to Toda were \$0.2 million.

For the three and nine months ended September 30, 2019, purchases from Qian Dong were \$0.1 million and \$0.4 million, respectively. Sales to Toda for the three and nine months ended September 30, 2019, were \$0.2 million and \$0.5 million, respectively.

18.3 Transactions with other related parties

Neo, through one of its subsidiaries in China, Magnequench Magnetics (Chu Zhou) Co., Ltd. ("**MQCZ**"), has occasionally sold products to Atatsu Co., Ltd. ("**Atatsu**") for resale to third party customers. Atatsu is controlled by members of MQCZ's key management personnel. For the three and nine months ended September 30, 2020, sales to Atatsu were \$0.1 million and \$0.2 million, respectively.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Sale of goods and services to related parties	\$ 1,699	\$ 1,323	\$ 3,829	\$ 4,906
Purchase of goods and services from related parties . . .	12,101	7,342	28,548	28,011
			<u>September</u>	<u>December 31,</u>
Trade balances:			<u>30, 2020</u>	<u>2019</u>
from related parties			\$ 322	\$ 348
due to related parties			(9,819)	(5,215)
Total			<u>\$ (9,497)</u>	<u>\$ (4,867)</u>

NOTE 19 DIRECTORS AND KEY MANAGEMENT COMPENSATION

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

Neo's short-term employee benefits are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Directors	\$ 95	\$ 84	\$ 291	\$ 225
Key Executive Management	488	992	4,442	2,862
Total	\$ 583	\$ 1,076	\$ 4,733	\$ 3,087

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Directors	\$ 513	\$ (87)	\$ 374	\$ 190
Key Executive Management	401	234	474	264
Total	\$ 914	\$ 147	\$ 848	\$ 454

In the nine months ended September 30, 2020, Neo recognized an expense of \$1.8 million associated with the departure of a former member of Neo's executive management team.

In the first quarter of 2019, there was a revision of the vesting period from the previous estimate for Options and RSUs pursuant to the termination of the Luxfer Transaction. Neo subsequently revised and adjusted the recognized share-based compensation expense on a cumulative basis, which resulted in a recovery of share-based compensation expense being recorded in the unaudited interim condensed consolidated statements of profit or loss in the first quarter of 2019.

NOTE 20 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.

20.1 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.

20.2 Foreign currency exchange risk

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

- Translation of foreign currency denominated revenue and expenses into U.S. dollars, the currency in which Neo reports in – When the foreign currency changes in relation to the U.S. dollar, income reported in U.S. dollars will change. The impact of weakening foreign currency in relation to the U.S. dollar for foreign currency denominated revenue and expenses will result in higher net income because Neo has more foreign currency-based expenses than revenue.
- Translation of foreign currency denominated debt and other monetary items – A weakening foreign currency in respect of Neo's foreign currency denominated debt will decrease the debt in U.S. dollar terms and generate a FX gain on bank advances and other short-term debt, which is recorded in income. Neo calculates FX on the short-term debt using the difference in FX rates at the beginning and at the end of each reporting period. Other foreign currency denominated monetary items will also be impacted by changes in FX rates.

The following table summarizes (in U.S. dollar equivalents) Neo's major currency exposures as of September 30, 2020:

	Chinese Renminbi	Euro	USD	Thai Baht	Canadian Dollar	British Pound
Cash and cash equivalents	\$ 2,075	\$ 6,972	\$ 5,368	\$ 3,689	\$ 2,115	\$ 498
Accounts receivable	2,341	1,707	3,798	1,821	—	—
Income taxes receivable	—	928	—	—	—	—
Other receivable	57	1,017	—	90	778	—
Bank advances and other short-term debt	—	(74)	—	—	—	—
Accounts payable and accrued liabilities	(8,372)	(6,474)	(1)	(1,524)	(834)	(522)
Lease obligations	(136)	(30)	—	(22)	(156)	(36)
Income taxes payable	(142)	(50)	—	—	(576)	—
Net financial assets (liabilities)	\$ (4,177)	\$ 3,996	\$ 9,165	\$ 4,054	\$ 1,327	\$ (60)

The following table shows the impact of a one-percentage point strengthening or weakening of foreign currencies against the U.S. dollar as of September 30, 2020 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	\$ (42)	\$ 40	\$ 41	\$ 13	\$ (1)
1% Weakening					
Net earnings before tax	42	(40)	(41)	(13)	1

The effect on profit or loss of a one-percentage point strengthening or weakening of U.S. dollar financial assets and liabilities held in non-U.S. dollar functional currency subsidiaries is a \$51 thousand gain or loss, respectively.

20.3 Interest rate risk

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

As at September 30, 2020, Neo had no outstanding bank loans and \$0.1 million was drawn from the line of credit, and thus does not have significant exposure to interest rate fluctuations.

20.4 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 established a loss allowance using the ECL impairment model and the carrying amount of accounts receivable generally represents the maximum credit exposure. As at September 30, 2020, the loss allowance was approximately \$0.2 million. The estimated credit losses is included in selling, general and administrative expenses in the unaudited interim condensed consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose Neo to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at September 30, 2020, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

20.5 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 21](#). It also manages liquidity risk by continuously monitoring actual and projected cash flows, taking into account Neo's sales and receipts and matching the maturity profile of financial assets and liabilities. The Board of Directors reviews and approves Neo's annual operating and capital budgets, as well as any material transactions out of the ordinary course of business, including proposals on acquisitions and other major investments.

The following table reflects the contractual maturity of Neo's financial liabilities as at September 30, 2020:

<u>Financial liabilities</u>	<u>1 year</u>	<u>2-3 years</u>	<u>4-5 years</u>	<u>Beyond 5 years</u>	<u>Total</u>
Bank advances and other short-term debts	\$ 74	\$ —	\$ —	\$ —	\$ 74
Accounts payable and other accrued charges	63,353	—	—	—	63,353
Derivative liability*	11,922	—	—	—	11,922
Provisions	1,871	3,281	—	—	5,152
Lease obligations	1,310	1,845	541	55	3,751
Other liabilities	186	1,629	—	—	1,815
Total	\$78,716	\$ 6,755	\$ 541	\$ 55	\$86,067

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

NOTE 21 CAPITAL DISCLOSURES

Neo's objectives when managing its capital are:

- to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future growth of the business, both internally and by acquisition, and
- to provide an adequate return to its shareholders;

Neo defines its capital as follows:

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

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

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

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

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

NOTE 22 SUBSEQUENT EVENTS

22.1 Dividends payable to equity holders of Neo

On November 12, 2020, the Board of Directors declared a quarterly dividend of Cdn \$0.10 per common share payable in cash on December 30, 2020, to common shareholders of record at the close of business on December 18, 2020.

22.2 Normal Course Issuer Bid

Between October 1 and November 12, 2020, Neo repurchased, for cancellation, 79,924 shares for a total consideration of \$0.7 million.