



*Performance Materials*

**NEO PERFORMANCE MATERIALS INC.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED  
SEPTEMBER 30, 2019**

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

	<b>September 30, 2019</b>	<b>December 31, 2018</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents .....	74,859	71,015
Restricted cash .....	1,582	1,650
Accounts receivable .....	48,240	49,544
Inventories <a href="#">(Note 7)</a> .....	111,398	136,350
Income taxes receivable .....	504	343
Other current assets .....	17,375	20,554
<b>Total current assets</b> .....	<b>253,958</b>	<b>279,456</b>
Property, plant and equipment <a href="#">(Note 8)</a> .....	92,675	86,963
Intangible assets <a href="#">(Note 9)</a> .....	65,895	66,721
Goodwill <a href="#">(Note 10)</a> .....	97,866	99,365
Investments <a href="#">(Note 11)</a> .....	8,995	8,605
Deferred tax assets .....	1,026	1,079
Other non-current assets .....	823	834
<b>Total non-current assets</b> .....	<b>267,280</b>	<b>263,567</b>
<b>Total assets</b> .....	<b>\$ 521,238</b>	<b>\$ 543,023</b>
 <b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Bank advances and other short-term debt <a href="#">(Note 12)</a> .....	—	3,970
Accounts payable and other accrued charges .....	46,456	57,942
Income taxes payable .....	4,630	6,566
Lease obligations <a href="#">(Note 4)</a> .....	1,591	—
Other current liabilities .....	52	777
<b>Total current liabilities</b> .....	<b>52,729</b>	<b>69,255</b>
Employee benefits .....	1,894	2,125
Derivative liability <a href="#">(Note 12)</a> .....	11,554	9,525
Provisions .....	4,717	4,717
Deferred tax liabilities .....	17,302	17,730
Lease obligations <a href="#">(Note 4)</a> .....	2,665	—
Other non-current liabilities .....	2,054	2,494
<b>Total non-current liabilities</b> .....	<b>40,186</b>	<b>36,591</b>
<b>Total liabilities</b> .....	<b>92,915</b>	<b>105,846</b>
Non-controlling interest .....	4,773	4,758
Equity attributable to equity holders of Neo Performance Materials Inc. ....	423,550	432,419
<b>Total equity</b> .....	<b>428,323</b>	<b>437,177</b>
<b>Total liabilities and equity</b> .....	<b>\$ 521,238</b>	<b>\$ 543,023</b>
Commitments and contingencies <a href="#">(Note 15)</a>		
Subsequent events <a href="#">(Note 24)</a>		

*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)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Revenue</b> .....	102,645	114,216	312,911	344,834
<b>Costs of sales</b>				
Costs excluding depreciation and amortization .....	74,669	82,607	227,840	242,661
Depreciation and amortization .....	2,546	2,404	7,309	7,389
<b>Gross profit</b> .....	25,430	29,205	77,762	94,784
<b>Expenses</b>				
Selling, general and administrative .....	11,383	10,991	29,928	36,050
Share-based compensation (Note 19) .....	73	1,478	377	3,658
Depreciation and amortization .....	1,971	1,658	5,970	5,262
Research and development .....	3,604	4,188	9,985	13,150
Impairment of assets .....	—	—	1,014	—
	17,031	18,315	47,274	58,120
<b>Operating income</b> .....	<b>8,399</b>	<b>10,890</b>	<b>30,488</b>	<b>36,664</b>
Other income (expense) .....	129	1,859	(465)	9,937
Finance (costs) income, net .....	(353)	128	(2,044)	1,594
Foreign exchange loss .....	(662)	(249)	(970)	(183)
<b>Income from operations before income taxes and equity income (loss) of associates</b> .....	7,513	12,628	27,009	48,012
Income tax expense (Note 18) .....	(3,612)	(3,975)	(8,807)	(10,517)
<b>Income from operations before equity income (loss) of associates</b> .....	3,901	8,653	18,202	37,495
Equity income (loss) of associates (net of income tax) (Note 11) .....	171	115	390	(737)
<b>Net income</b> .....	<b>\$ 4,072</b>	<b>\$ 8,768</b>	<b>\$ 18,592</b>	<b>\$ 36,758</b>
<b>Attributable to:</b>				
Equity holders of Neo Performance Materials Inc. . . .	\$ 3,944	\$ 8,669	\$ 18,281	\$ 36,510
Non-controlling interest .....	128	99	311	248
	<b>\$ 4,072</b>	<b>\$ 8,768</b>	<b>\$ 18,592</b>	<b>\$ 36,758</b>
<b>Earnings per share attributable to equity holders of Neo Performance Materials Inc.:</b>				
Basic (Note 17) .....	\$ 0.10	\$ 0.22	\$ 0.47	\$ 0.92
Diluted (Note 17) .....	\$ 0.10	\$ 0.21	\$ 0.47	\$ 0.90

*See accompanying notes*

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Net income for the period</b> .....	\$ 4,072	\$ 8,768	\$ 18,592	\$ 36,758
<b>Other comprehensive loss:</b>				
Item that is or may be reclassified subsequently to profit or loss:				
Currency translation adjustment .....	(5,382)	(6,125)	(5,280)	(9,019)
<b>Other comprehensive loss for the period</b> .....	<b>(5,382)</b>	<b>(6,125)</b>	<b>(5,280)</b>	<b>(9,019)</b>
<b>Total comprehensive (loss) income for the period</b> ...	<b>\$ (1,310)</b>	<b>\$ 2,643</b>	<b>\$ 13,312</b>	<b>\$ 27,739</b>
<b>Attributable to:</b>				
Non-controlling interest .....	69	64	255	193
Equity holders of Neo Performance Materials Inc. . .	(1,379)	2,579	13,057	27,546
	<b>\$ (1,310)</b>	<b>\$ 2,643</b>	<b>\$ 13,312</b>	<b>\$ 27,739</b>

*See accompanying notes*

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

	<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Operating activities</b>		
Net income for the period . . . . .	\$ 18,592	\$ 36,758
Add (deduct) items not affecting cash:		
Depreciation and amortization . . . . .	13,279	12,651
Share-based compensation . . . . .	377	3,658
Change in pension liability . . . . .	(231)	(238)
Finance costs, net. . . . .	2,044	(1,594)
Equity (income)/loss of associates <a href="#">(Note 11)</a> . . . . .	(390)	737
Loss on disposal of property, plant and equipment . . . . .	180	317
Insurance recovery included in other income . . . . .	—	(11,770)
Income tax expense <a href="#">(Note 18)</a> . . . . .	8,807	10,517
Foreign exchange loss/(gain). . . . .	187	(289)
Impairment of assets . . . . .	1,014	—
Restructuring costs . . . . .	756	—
Other . . . . .	322	1,010
Net change in non-cash working capital balances related to operations <a href="#">(Note 14)</a> . . . . .	14,556	(55,170)
Income taxes paid . . . . .	(10,792)	(9,950)
Interest received, net of interest paid . . . . .	(15)	307
<b>Cash provided by (used in) operating activities</b> . . . . .	<b>\$ 48,686</b>	<b>\$ (13,056)</b>
<b>Investing activities</b>		
Additions of property, plant and equipment . . . . .	(7,204)	(8,116)
Additions of intangible assets . . . . .	(385)	(635)
Acquisition through business combination <a href="#">(Note 6)</a> . . . . .	(8,799)	—
Recovery from insurance claims . . . . .	61	7,865
Decrease (increase) in restricted cash . . . . .	116	(190)
<b>Cash used in investing activities</b> . . . . .	<b>\$ (16,211)</b>	<b>\$ (1,076)</b>
<b>Financing activities</b>		
Repayment of bank advances and other short-term debt, net . . . . .	(3,970)	(159)
Dividends paid to non-controlling interest . . . . .	(801)	(193)
Dividends paid to equity holders of Neo Performance Materials Inc. . . . .	(8,625)	(8,859)
Repurchase of common shares . . . . .	(13,213)	(1,885)
Lease payments . . . . .	(820)	—
Other financing activities . . . . .	(267)	(501)
<b>Cash used in financing activities</b> . . . . .	<b>\$ (27,696)</b>	<b>\$ (11,597)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b> . . . . .	(935)	(1,740)
<b>Cash provided (used) during the period</b> . . . . .	<b>3,844</b>	<b>(27,469)</b>
Cash and cash equivalents, beginning of period . . . . .	71,015	96,805
<b>Cash and cash equivalents, end of period</b> . . . . .	<b>\$ 74,859</b>	<b>\$ 69,336</b>

*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 (Deficits)	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains (net of tax)	Accumulated Other Comprehensive Income (Loss)	Equity Attributable to Equity Holders of Neo Performance Materials Inc.	Non-Controlling Interest	Equity
	Number	Amount								
<b>Balance - January 1, 2019</b> .....	<b>39,650,340</b>	<b>\$ 40</b>	<b>\$ 16,132</b>	<b>\$ 420,653</b>	<b>\$ (5,146)</b>	<b>\$ 740</b>	<b>\$ (4,406)</b>	<b>\$ 432,419</b>	<b>\$ 4,758</b>	<b>\$ 437,177</b>
Net earnings .....	—	—	18,281	—	—	—	—	18,281	311	18,592
Other comprehensive loss .....	—	—	—	—	(5,224)	—	(5,224)	(5,224)	(56)	(5,280)
<b>Total comprehensive income</b> .....	<b>—</b>	<b>—</b>	<b>18,281</b>	<b>—</b>	<b>(5,224)</b>	<b>—</b>	<b>(5,224)</b>	<b>13,057</b>	<b>255</b>	<b>13,312</b>
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 .....	(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)
<b>Balance - September 30, 2019</b> .....	<b>38,221,781</b>	<b>\$ 39</b>	<b>\$ 25,788</b>	<b>\$ 407,353</b>	<b>\$ (10,370)</b>	<b>\$ 740</b>	<b>\$ (9,630)</b>	<b>\$ 423,550</b>	<b>\$ 4,773</b>	<b>\$ 428,323</b>
<b>Balance - January 1, 2018</b> .....	<b>39,921,577</b>	<b>\$ 40</b>	<b>\$ (12,949)</b>	<b>\$ 422,210</b>	<b>\$ 3,515</b>	<b>\$ 600</b>	<b>\$ 4,115</b>	<b>\$ 413,416</b>	<b>\$ 5,831</b>	<b>\$ 419,247</b>
Net earnings .....	—	—	36,510	—	—	—	—	36,510	248	36,758
Other comprehensive income .....	—	—	—	—	(8,964)	—	(8,964)	(8,964)	(55)	(9,019)
<b>Total comprehensive income</b> .....	<b>—</b>	<b>—</b>	<b>36,510</b>	<b>—</b>	<b>(8,964)</b>	<b>—</b>	<b>(8,964)</b>	<b>27,546</b>	<b>193</b>	<b>27,739</b>
Share-based compensation .....	—	—	—	3,106	—	—	—	3,106	—	3,106
Dividends paid to equity holders of Neo Performance Materials Inc. ....	—	—	(8,859)	—	—	—	—	(8,859)	—	(8,859)
Dividend distributions to non-controlling interest .....	—	—	—	—	—	—	—	—	(1,282)	(1,282)
Shares repurchased and canceled under Normal Course Issuer Bid .....	(146,869)	—	—	(1,885)	—	—	—	(1,885)	—	(1,885)
Issuance of common shares for Restricted Share Units exercised .....	49,985	—	—	(501)	—	—	—	(501)	—	(501)
	(96,884)	—	(8,859)	720	—	—	—	(8,139)	(1,282)	(9,421)
<b>Balance - September 30, 2018</b> .....	<b>39,824,693</b>	<b>\$ 40</b>	<b>\$ 14,702</b>	<b>\$ 422,930</b>	<b>\$ (5,449)</b>	<b>\$ 600</b>	<b>\$ (4,849)</b>	<b>\$ 432,823</b>	<b>\$ 4,742</b>	<b>\$ 437,565</b>

*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)

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**NOTE 1**            **NATURE OF OPERATIONS**

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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 remain the majority shareholder of Neo.

Neo has established itself as a global leader in the innovation and manufacturing of rare earth and rare metal-based functional materials, which are essential inputs to high technology, high-growth, future-facing industries. Neo has approximately 1,859 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**"). Neo is the only non-Chinese company with a license to separate rare earth elements ("**REEs**") in China, which provides unique competitive advantages and a degree of vertical integration. Since 1994, Neo has leveraged its rare earth separation expertise to innovate and grow into a leading manufacturer of functional engineered materials for specialty end markets. This includes establishing the #1 global market position for powders used in bonded and hot-deformed magnets, a top-three global market position in auto emission control catalysts, the #1 gallium tri-chloride ("**GaCl<sub>3</sub>**") producer for light-emitting diodes ("**LEDs**") and growth opportunities into new end markets such as waste-water treatment. Neo is organized along three business segments: Magnequench, Chemicals & Oxides ("**C&O**") and Rare Metals, as well as the Corporate segment.

***Magnequench***

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

***C&O***

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

***Rare Metals***

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

The segment recorded a \$1.0 million impairment of assets affecting operating income related to the closure of Neo Rare Metals (Utah), LLC ("**NRM Utah**") in the nine months ended September 30, 2019. In addition to this impairment, the segment had also recognized a restructuring and other charge of \$0.8 million. Subsequent to the closure, a substantial portion of NRM Utah's business is transferred to the segment's operation in Peterborough, Ontario, which already houses the balance of the gallium business, resulting in additional synergies and efficiencies.

### **Corporate**

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

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 for a combination of cash and stock (the "**Luxfer Transaction**"). On March 10, 2019, Luxfer and Neo mutually agreed to terminate the Luxfer Transaction.

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## **NOTE 2            GENERAL INFORMATION AND STATEMENT OF COMPLIANCE WITH IFRS**

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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, 2018. The significant accounting policies disclosed in Note 4 of Neo's audited annual financial statements for the year ended December 31, 2018 have been applied consistently in the preparation of these unaudited interim condensed consolidated financial statements, with the exception of the accounting standards adopted in 2019.

The unaudited interim condensed consolidated financial statements were approved and authorized for issuance by Neo's Board of Directors on November 13, 2019.

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## **NOTE 3            BASIS OF PREPARATION**

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

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

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

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**NOTE 4                    CHANGES IN ACCOUNTING POLICIES**

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Neo adopted the following accounting standards and amendments to accounting standards, effective January 1, 2019:

**4.1            IFRS 16 - Leases**

**4.1.1        Adjustments recognized on adoption of IFRS 16**

On January 13, 2016, the IASB issued IFRS 16 - Leases ("**IFRS 16**"). IFRS 16 supersedes IAS 17 - Leases ("**IAS 17**"), IFRIC 4 - Determining whether an Arrangement contains a Lease ("**IFRIC 4**"), SIC-15 - Operating Leases – Incentives, and SIC-27 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 contains a single lessee accounting model, which eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease, other than short term leases and leases of low value items for which a lessee has the option not to apply the measurement and presentation requirements of IFRS 16, are recorded in the statement of financial position with a right-of-use asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 requirements.

Previously, Neo determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Under IFRS 16, Neo assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 4.1.2 below. On transition to IFRS 16, Neo elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or modified on or after January 1, 2019.

Neo has adopted IFRS 16 using the modified retrospective approach under which the right-of-use asset is equal to the lease liability as at January 1, 2019. As a result, comparative information has not been restated and continues to be reported under IAS 17, IFRIC 4, SIC-15, and SIC-27.

On adoption of IFRS 16, Neo recognized lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of January 1, 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2019 was 6.15%.

Right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the balance sheet as at December 31, 2018.

The change in accounting policy affected the following items in the consolidated statements of financial position on January 1, 2019:

	<b>January 1, 2019</b>
Increase in right-of-use assets . . . . .	5,066
Decrease in other current assets . . . . .	(34)
Increase in lease liabilities . . . . .	(5,032)
<b>Net impact to the consolidated statements of financial position . . . . .</b>	<b>\$            —</b>

Adjusted OIBDA, segment assets and liabilities for the period ended September 30, 2019 all increased as a result of the change in accounting policy. As a result of the adoption of IFRS 16, there was no impact to earnings per share for the three months ended September 30, 2019 and for the nine months ended September 30, 2019 earnings per share was decreased by \$0.002.

The following practical expedients were applied upon transition to IFRS 16:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the treatment of operating leases with a remaining lease term of less than 12 months at January 1, 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of past experience in determining the lease term where the contract contains options to extend or terminate the lease

#### **4.1.2 Revised accounting policy**

At the inception of a contract, Neo assesses whether a contract is, or contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, Neo assesses whether:

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- Neo has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- Neo has the right to direct the use of the asset. Neo has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, Neo has the right to direct the use of the asset if either:
  - Neo has the right to operate the asset; or
  - Neo designed the asset in a way that predetermines how and for what purpose it will be used.

Neo recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, Neo's incremental borrowing rate. Generally, Neo uses its incremental borrowing rate as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Neo has applied judgment to determine the lease term for some lease contracts in which it is a lessee, that include renewal options. The assessment of whether Neo is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

#### **4.2 IFRIC 23 - Uncertainty over income tax treatments**

On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over income tax treatments ("**IFRIC 23**"). IFRIC 23 clarifies how to apply the recognition and measurement requirements in IAS 12 - Income taxes ("**IAS 12**")

when there is uncertainty over income tax treatments. The interpretation is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. Neo has adopted IFRIC 23 on January 1, 2019 and there was no impact on these unaudited interim condensed consolidated financial statements resulting from the adoption of this interpretation for the three and nine months ended September 30, 2019.

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**NOTE 5 RECENT ACCOUNTING PRONOUNCEMENTS**

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There are no recent accounting pronouncements issued by the IASB that are expected to have a material impact on the financial statements of Neo.

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**NOTE 6 BUSINESS COMBINATION**

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On July 15, 2019, Neo, through a newly formed wholly owned subsidiary, Magnequench Magnetics (Chu Zhou) Co., Ltd. ("**MQCZ**") entered into a definitive agreement to purchase the net assets of Anhui Asia Magnets Co., Ltd. ("**SAMAG**"), a privately-owned manufacturer in Chuzhou, China of compression molded NdFeB bonded magnets, located in Chuzhou China, for a purchase price of \$9.2 million (RMB 64.8 million), plus working capital \$0.3 million (RMB 2.3 million). The acquisition will further enhance the value that Neo provides to customers and is expected to leverage Neo's ability to produce high-performance magnetic powders and magnets. The transaction closed on August 26, 2019. Neo has applied IFRS 3 Business Combinations to account for the purchase of SAMAG.

The preliminary purchase equation is based on management's current best estimates of fair value of the identifiable assets and liabilities acquired. The actual amount allocated to certain identifiable net assets could vary as the purchase equation is finalized. The preliminary purchase price of \$9.5 million is allocated as follows:

Inventories .....	\$ 392
Property, plant and equipment .....	5,432
Intangible assets .....	3,676
Goodwill .....	152
Other payable .....	(154)
<b>Total</b> .....	<u><u>\$ 9,498</u></u>

Neo has one year from the date of acquisition to finalize the fair value of net tangible assets, goodwill and intangible assets, however, Neo does not expect significant changes from the amounts presented above.

The goodwill reflects the benefit of the increased capacity and new equipment which will allow Neo to accelerate its strategy to expand into compression molded magnet production.

Neo received a security deposit in the amount of \$0.6 million (RMB 5.0 million) from the selling shareholders of SAMAG pursuant to the asset purchase agreement for the purpose of securing the indemnification obligations of SAMAG and its selling shareholders. The security deposit will be released in six months after the closing date of the business combination.

As part of the acquisition, \$0.4 million (RMB 3.0 million) is to be paid out to the selling shareholders of SAMAG three years after the closing date of the acquisition, subject to their continued employment with Neo. In accordance with IFRS 3, the contingent payments will be accounted for as compensation for post-combination services provided and will be expensed through profit or loss as services are rendered.

Neo incurred acquisition-related costs of \$0.2 million for the three and nine months period ended in September 30, 2019 and \$0.2 million in the last quarter of December 31, 2018. These costs have been included in selling, general and administrative costs.

Prior to the business combination, SAMAG was a customer of Neo; however, there were no sales or purchase contracts for goods or services between Neo and SAMAG.

The following table shows the impact of the business combination on Neo's financial performance as if the business combination had been completed on January 1, 2019:

	<u>Combined results</u>
<b>For the nine-month period ended September 30, 2019:</b>	
Revenue .....	\$ 315,846
Net income .....	18,616

Neo considers the pro forma figures above to be an approximate measurement of the financial performance of the combined business over a nine-month period. However, pro forma information does not account for synergies or changes to historical transactions and is not necessarily indicative of the profit of Neo if the acquisition would have occurred on January 1, 2019, nor the profit that may be achieved in the future.

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**NOTE 7            INVENTORIES**

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

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Raw materials .....	\$ 37,430	\$ 40,544
Work-in-progress .....	26,657	28,037
Finished goods .....	37,976	58,796
Supplies .....	9,335	8,973
<b>Total</b> .....	<b>\$ 111,398</b>	<b>\$ 136,350</b>

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

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**NOTE 8      PROPERTY, PLANT AND EQUIPMENT**


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	Land	Building & improvements	Machinery & Equipment	Right-of-use Assets	Office equipment	Construction in Progress (net of transfer)	Total
<b>At January 1, 2019</b>							
Cost .....	\$ 3,150	\$ 36,256	\$ 61,726	\$ —	\$ 3,913	\$ 10,209	\$115,254
Accumulated depreciation	—	(7,012)	(19,571)	—	(1,708)	—	(28,291)
<b>Opening net book value at January 1, 2019 .....</b>	<b>\$ 3,150</b>	<b>\$ 29,244</b>	<b>\$ 42,155</b>	<b>\$ —</b>	<b>\$ 2,205</b>	<b>\$ 10,209</b>	<b>\$ 86,963</b>
IFRS 16 - Leases .....	—	—	—	5,066	—	—	5,066
Acquisition through business combination (Note 6) .....	—	2,201	2,204	433	594	—	5,432
Additions .....	—	94	1,596	124	130	5,384	7,328
Disposals, net of cost and accumulated depreciation.	—	(6)	(141)	—	(7)	(26)	(180)
Transfers .....	—	1,122	5,635	—	391	(7,148)	—
Currency translation adjustments .....	—	(462)	(436)	(46)	(99)	(35)	(1,078)
Write-offs .....	—	—	—	—	—	(313)	(313)
Impairment <sup>(1)</sup> .....	(505)	(459)	—	—	—	—	(964)
Depreciation expense .....	—	(2,086)	(6,046)	(1,107)	(340)	—	(9,579)
<b>Closing net book value at September 30, 2019 ..</b>	<b>\$ 2,645</b>	<b>\$ 29,648</b>	<b>\$ 44,967</b>	<b>\$ 4,470</b>	<b>\$ 2,874</b>	<b>\$ 8,071</b>	<b>\$ 92,675</b>
<b>Comprised of:</b>							
Cost .....	\$ 2,645	\$ 38,509	\$ 69,669	\$ 5,552	\$ 4,939	\$ 8,071	\$129,385
Accumulated depreciation	—	(8,861)	(24,702)	(1,082)	(2,065)	—	(36,710)

**Notes:**

- (1) The Rare Metal segment recorded a \$1.0 million impairment of assets related to the closure of NRM Utah in the nine months ended September 30, 2019 to recognize the assets based on their fair value less cost of disposal in accordance with IAS 36, Impairment of Assets.

	Land	Building & improvements	Machinery & Equipment	Office equipment	Construction in Progress (net of transfer)	Total
<b>At January 1, 2018</b>						
Cost .....	\$ 3,150	\$ 36,321	\$ 55,567	\$ 3,441	\$ 7,009	\$ 105,488
Accumulated depreciation .....	—	(4,141)	(11,631)	(1,324)	—	(17,096)
<b>Opening net book value at January 1, 2018 .....</b>	<b>\$ 3,150</b>	<b>\$ 32,180</b>	<b>\$ 43,936</b>	<b>\$ 2,117</b>	<b>\$ 7,009</b>	<b>\$ 88,392</b>
Additions .....	—	197	1,821	115	10,575	12,708
Disposals, net of cost and accumulated depreciation .....	—	(131)	(285)	(30)	(37)	(483)
Transfers .....	—	571	6,089	407	(7,067)	—
Currency translation adjustments .....	—	(715)	(705)	(34)	(48)	(1,502)
Write-offs .....	—	—	(136)	—	(223)	(359)
Depreciation expense .....	—	(2,858)	(8,565)	(370)	—	(11,793)
<b>Closing net book value at December 31, 2018 .....</b>	<b>\$ 3,150</b>	<b>\$ 29,244</b>	<b>\$ 42,155</b>	<b>\$ 2,205</b>	<b>\$ 10,209</b>	<b>\$ 86,963</b>
<b>Comprised of:</b>						
Cost .....	\$ 3,150	\$ 36,256	\$ 61,726	\$ 3,913	\$ 10,209	\$ 115,254
Accumulated depreciation .....	—	(7,012)	(19,571)	(1,708)	—	(28,291)

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## NOTE 9 INTANGIBLE ASSETS

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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
<b>At January 1, 2019</b>				
Cost .....	\$ 70,748	\$ 1,154	\$ 6,000	\$ 77,902
Accumulated amortization .....	(11,005)	(176)	—	(11,181)
<b>Opening net book value at January 1, 2019 ..</b>	<b>\$ 59,743</b>	<b>\$ 978</b>	<b>\$ 6,000</b>	<b>\$ 66,721</b>
Acquisition through business combination <a href="#">(Note 6)</a> .....	1,329	2,347	—	3,676
Additions .....	—	385	—	385
Currency translation adjustments .....	(1,149)	(38)	—	(1,187)
Amortization expense .....	(3,551)	(149)	—	(3,700)
<b>Closing net book value at September 30, 2019</b>	<b>\$ 56,372</b>	<b>\$ 3,523</b>	<b>\$ 6,000</b>	<b>\$ 65,895</b>
<b>Comprised of:</b>				
Cost .....	\$ 70,623	\$ 3,850	\$ 6,000	\$ 80,473
Accumulated amortization .....	(14,251)	(327)	—	(14,578)

	<b>Customer Relationships</b>	<b>License agreements</b>	<b>Tradename</b>	<b>Total</b>
<b>At January 1, 2018</b>				
Cost .....	\$ 72,976	\$ 342	\$ 6,000	\$ 79,318
Accumulated amortization. ....	(6,488)	(61)	—	(6,549)
<b>Opening net book value at January 1, 2018 ..</b>	<b>\$ 66,488</b>	<b>\$ 281</b>	<b>\$ 6,000</b>	<b>\$ 72,769</b>
Additions .....	—	803	—	803
Currency translation adjustments .....	(1,920)	(5)	—	(1,925)
Amortization expense .....	(4,825)	(101)	—	(4,926)
<b>Closing net book value at December 31, 2018.</b>	<b>\$ 59,743</b>	<b>\$ 978</b>	<b>\$ 6,000</b>	<b>\$ 66,721</b>
<b>Comprised of:</b>				
Cost .....	\$ 70,748	\$ 1,154	\$ 6,000	\$ 77,902
Accumulated amortization. ....	(11,005)	(176)	—	(11,181)

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**NOTE 10      GOODWILL**

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	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Opening balance as at January 1 .....	\$ 99,365	\$ 101,893
Acquisition through business combination <a href="#">(Note 6)</a> .....	152	—
Currency translation adjustments .....	(1,651)	(2,528)
<b>Ending balance .....</b>	<b>\$ 97,866</b>	<b>\$ 99,365</b>

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**NOTE 11      INVESTMENTS**

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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.

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

Investments accounted for using the equity method are as follows:

	<u>TMT</u>	<u>Keli</u>	<u>GQD</u>	<u>Total</u>
Carrying value at January 1, 2019 . . . . .	\$ 1,745	\$ 6,404	\$ 456	\$ 8,605
Share of results in associates . . . . .	91	148	151	390
<b>Carrying value at September 30, 2019</b> . . . . .	<b>\$ 1,836</b>	<b>\$ 6,552</b>	<b>\$ 607</b>	<b>\$ 8,995</b>
Carrying value at January 1, 2018 . . . . .	\$ 1,785	\$ 6,391	\$ 457	\$ 8,633
Share of results in associates . . . . .	(40)	13	(1)	(28)
<b>Carrying value at December 31, 2018</b> . . . . .	<b>\$ 1,745</b>	<b>\$ 6,404</b>	<b>\$ 456</b>	<b>\$ 8,605</b>

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**NOTE 12 CATEGORIES OF FINANCIAL INSTRUMENTS**

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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, 2019</u>	<u>December 31, 2018</u>
<b>Measured at amortized cost</b>		
Cash and cash equivalents . . . . .	\$ 74,859	\$ 71,015
Accounts receivable . . . . .	48,240	49,544
<b>Total financial assets</b> . . . . .	<b>\$ 123,099</b>	<b>\$ 120,559</b>
<b>Financial Liabilities</b>		
<b>Fair value through profit or loss</b>		
Put option issued to non-controlling interest of Buss & Buss (Derivative liability) . . . . .	\$ 11,554	\$ 9,525
<b>Measured at amortized cost</b>		
Current:		
Bank advances and other short-term debt . . . . .	—	3,970
Accounts payable and other accrued charges . . . . .	46,456	57,942
	\$ 46,456	\$ 61,912
<b>Total financial liabilities</b> . . . . .	<b>\$ 58,010</b>	<b>\$ 71,437</b>

**12.1 Derivative liability**

As at September 30, 2019, Neo's derivative liability is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss Spezialmetalle GmbH ("**Buss & Buss**"). The derivative is measured at fair value.

<b><u>Buss &amp; Buss put option</u></b>	<b>September 30, 2019</b>	<b>December 31, 2018</b>
Opening balance .....	\$ 9,525	\$ 9,842
Movement in fair value during the period .....	2,029	(317)
<b>Ending balance .....</b>	<b>\$ 11,554</b>	<b>\$ 9,525</b>

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

## **12.2 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 statements of financial position as at September 30, 2019, are grouped into the fair value hierarchy as follows:

<b>Financial Liabilities:</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Put option issued to non-controlling interest of Buss & Buss .....	\$ —	\$ —	\$ 11,554

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, 2019.

## **12.3 Bank advances, short-term loan and debt**

### ***12.3.1 Chinese bank advances***

As of September 30, 2019, there is no amount outstanding on the line of credit in China.

### 12.3.2 German debt facility

As at September 30, 2019, Buss & Buss has a \$6.0 million (€5.5 million) revolving line of credit which can be drawn either in Euro or U.S. dollar. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate ("**Euribor**") average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

The security for the revolving line of credit includes a directly enforceable guarantee of the non-controlling shareholder of Buss & Buss amounting to \$0.27 million (€0.25 million) as well as a lien amounting to \$0.55 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, 2019, there was no amount drawn from the revolving line of credit.

There are no financial covenants which need to be met.

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## NOTE 13 OPERATING SEGMENTS

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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, 2019:

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

**Notes:**

- (1) Represents share and value-based compensation expense in respect of the legacy management incentive plan ("Legacy Plan"), the long-term incentive plan ("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 expense of \$0.1 million is 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, refer to Note 6.

**For the nine months ended September 30, 2019:**

	Magnequench	Chemicals and 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)	—
<b>Total revenue</b>	<b>\$ 131,052</b>	<b>\$ 124,576</b>	<b>\$ 69,058</b>	<b>\$ —</b>	<b>\$ 324,686</b>	<b>\$ (11,775)</b>	<b>\$ 312,911</b>
<b>Operating income (loss)</b>	<b>\$ 21,780</b>	<b>\$ 15,456</b>	<b>\$ (369)</b>	<b>\$ (7,028)</b>	<b>\$ 29,839</b>	<b>\$ 649</b>	<b>\$ 30,488</b>
Other expense							(465)
Finance costs, net							(2,044)
Foreign exchange loss							(970)
<b>Income from operations before income taxes and equity income (loss) of associates</b>							<b>\$ 27,009</b>
<b>Reconciliation to Adjusted OIBDA:</b>							
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 <sup>(1)</sup>	(363)	(697)	(151)	(62)	(1,273)	—	(1,273)
Impairment of assets <sup>(2)</sup>	—	—	1,014	—	1,014	—	1,014
Transaction cost <sup>(3)</sup>	218	—	—	(2,450)	(2,232)	—	(2,232)
<b>Adjusted OIBDA<sup>(4)</sup></b>	<b>\$ 27,508</b>	<b>\$ 18,455</b>	<b>\$ 3,951</b>	<b>\$ (9,287)</b>	<b>\$ 40,627</b>	<b>\$ 649</b>	<b>\$ 41,276</b>
Capital expenditures <sup>(5)</sup>	\$ 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, 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 \$1.7 million is 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) 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.
- (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, refer to Note 6.

**For the three months ended September 30, 2018:**

	<b>Magnequench</b>	<b>Chemicals and Oxides</b>	<b>Rare Metals</b>	<b>Corporate</b>	<b>Total for reportable segments</b>	<b>Eliminations</b>	<b>Total</b>
External revenue . . . . .	\$ 54,539	\$ 37,289	\$ 22,388	\$ —	\$ 114,216	\$ —	\$ 114,216
Inter-segment revenue . . . . .	—	4,072	—	—	4,072	(4,072)	—
<b>Total revenue . . . . .</b>	<b>\$ 54,539</b>	<b>\$ 41,361</b>	<b>\$ 22,388</b>	<b>\$ —</b>	<b>\$ 118,288</b>	<b>\$ (4,072)</b>	<b>\$ 114,216</b>
<b>Operating income (loss) . . . . .</b>	<b>\$ 10,514</b>	<b>\$ 3,908</b>	<b>\$ 501</b>	<b>\$ (4,460)</b>	<b>\$ 10,463</b>	<b>\$ 427</b>	<b>\$ 10,890</b>
Other income . . . . .							1,859
Finance income, net . . . . .							128
Foreign exchange loss . . . . .							(249)
<b>Income from operations before income taxes and equity income (loss) of associates . . . . .</b>							<b>\$ 12,628</b>

**Reconciliation to Adjusted OIBDA:**

Operating income (loss) . . . . .	\$ 10,514	\$ 3,908	\$ 501	\$ (4,460)	\$ 10,463	\$ 427	\$ 10,890
Depreciation and amortization . . . . .	1,751	1,087	1,209	15	4,062	—	4,062
Share and value-based compensation <sup>(1)</sup> . . . . .	284	219	74	1,203	1,780	—	1,780
<b>Adjusted OIBDA<sup>(2)</sup> . . . . .</b>	<b>\$ 12,549</b>	<b>\$ 5,214</b>	<b>\$ 1,784</b>	<b>\$ (3,242)</b>	<b>\$ 16,305</b>	<b>\$ 427</b>	<b>\$ 16,732</b>
Capital expenditures . . . . .	\$ 658	\$ 1,641	\$ 218	\$ —	\$ 2,517	\$ —	\$ 2,517

**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 fashion 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 \$0.3 million was included in selling, general, and administration expense for the three months ended September 30, 2018.
- (2) Certain items are excluded from operating income (loss) to determine Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

**For the nine months ended September 30, 2018:**

	<b>Magnequench</b>	<b>Chemicals and Oxides</b>	<b>Rare Metals</b>	<b>Corporate</b>	<b>Total for reportable segments</b>	<b>Eliminations</b>	<b>Total</b>
External revenue . . . . .	\$ 166,502	\$ 111,852	\$ 66,480	\$ —	\$ 344,834	\$ —	\$ 344,834
Inter-segment revenue . . . . .	—	11,363	—	—	11,363	(11,363)	—
<b>Total revenue . . . . .</b>	<b>\$ 166,502</b>	<b>\$ 123,215</b>	<b>\$ 66,480</b>	<b>\$ —</b>	<b>\$ 356,197</b>	<b>\$ (11,363)</b>	<b>\$ 344,834</b>
<b>Operating income (loss) . . . . .</b>	<b>\$ 35,287</b>	<b>\$ 9,833</b>	<b>\$ 4,140</b>	<b>\$ (13,528)</b>	<b>\$ 35,732</b>	<b>\$ 932</b>	<b>\$ 36,664</b>
Other income . . . . .							9,937
Finance income, net . . . . .							1,594
Foreign exchange loss . . . . .							(183)
<b>Income from operations before income taxes and equity income (loss) of associates . . . . .</b>							<b>\$ 48,012</b>

**Reconciliation to Adjusted OIBDA:**

Operating income (loss) . . . . .	\$ 35,287	\$ 9,833	\$ 4,140	\$ (13,528)	\$ 35,732	\$ 932	\$ 36,664
Depreciation and amortization . . . . .	5,567	3,376	3,663	45	12,651	—	12,651
Share and value-based compensation <sup>(1)</sup> . . . . .	578	705	249	3,031	4,563	—	4,563
<b>Adjusted OIBDA <sup>(2)</sup> . . . . .</b>	<b>\$ 41,432</b>	<b>\$ 13,914</b>	<b>\$ 8,052</b>	<b>\$ (10,452)</b>	<b>\$ 52,946</b>	<b>\$ 932</b>	<b>\$ 53,878</b>
Capital expenditures . . . . .	\$ 2,043	\$ 5,222	\$ 1,486	\$ —	\$ 8,751	\$ —	\$ 8,751

**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 fashion 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 \$0.9 million was included in selling, general, and administration expense for the nine months ended September 30, 2018.
- (2) Certain items are excluded from operating income (loss) to determine Adjusted OIBDA. Adjusted OIBDA is used internally by management when analyzing segment underlying performance.

**As at September 30, 2019:**

	<b>Magnequench</b>	<b>Chemicals and Oxides</b>	<b>Rare Metals</b>	<b>Corporate</b>	<b>Total for reportable segments</b>	<b>Eliminations</b>	<b>Total</b>
Total assets . . . . .	\$ 245,062	\$ 165,694	\$ 101,207	\$ 9,299	\$ 521,262	\$ (24)	\$ 521,238
Investment in equity method associates . . . . .	8,995	—	—	—	8,995	—	8,995
Total liabilities . . . . .	(30,961)	(27,801)	(23,321)	(10,833)	(92,916)	—	(92,916)

**As at December 31, 2018**

	<b>Magnequench</b>	<b>Chemicals and Oxides</b>	<b>Rare Metals</b>	<b>Corporate</b>	<b>Total for reportable segments</b>	<b>Eliminations</b>	<b>Total</b>
Total assets . . . . .	\$ 252,426	\$ 169,555	\$ 113,965	\$ 7,750	\$ 543,696	\$ (673)	\$ 543,023
Investment in equity method associates . . . . .	8,605	—	—	—	8,605	—	8,605
Total liabilities . . . . .	(34,717)	(30,974)	(27,701)	(12,454)	(105,846)	—	(105,846)

The geographic distribution of Neo's revenue based on the location of the customers for the three and nine months ended September 30, 2019 and 2018 is summarized as follows:

<u>Revenue</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Asia:				
China .....	\$ 35,657	\$ 39,806	\$ 95,871	\$ 107,635
Japan .....	15,730	17,273	48,171	52,937
Thailand .....	4,056	3,712	11,348	12,383
South Korea .....	2,724	4,698	8,552	14,069
North America .....	20,495	16,678	67,927	54,876
Europe .....	22,404	28,393	75,053	92,738
Other .....	1,579	3,656	5,989	10,196
<b>Total .....</b>	<b>\$ 102,645</b>	<b>\$ 114,216</b>	<b>\$ 312,911</b>	<b>\$ 344,834</b>

Revenue from one significant customer accounts for \$14.7 million and \$47.7 million of Neo's total revenue for the three and nine months ended September 30, 2019, respectively, and \$18.6 million and \$60.1 million for the three and nine months ended September 30, 2018, respectively. Neo defines significant customers as those that generate 10% or more of consolidated revenue.

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**NOTE 14 SUPPLEMENTAL CASH FLOW INFORMATION**

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

	<u>Nine Months Ended September 30,</u>	
	<u>2019</u>	<u>2018</u>
Decrease (increase) in assets:		
Accounts receivable .....	\$ 1,029	\$ (9,474)
Inventories .....	23,981	(30,874)
Other assets .....	2,683	(6,210)
Increase (decrease) in liabilities:		
Accounts payable and other accrued charges .....	(12,409)	(8,093)
Other liabilities .....	(728)	(519)
<b>Total net change .....</b>	<b>\$ 14,556</b>	<b>\$ (55,170)</b>

**15.1      Sales and purchase commitments**

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

**15.2      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, in March 2016, the German Courts have ruled that certain of Neo Chemicals & Oxides (Europe) Ltd's ("**Neo C&O (Europe)**") products infringed three expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1 ("**846**"), and European patent #0605274 ("**274**"). Neo C&O (Europe) filed an appeal in each of the three infringement actions and the appeals are still pending with respect to 846 and 274. 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.

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. There has been no determination of damages yet in this case.

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

On April 18, 2018, the Patent Reexamination Board of the State Intellectual Property Office of China ("**PRB**") ruled in favor of Zibo Jiahua Advanced Materials Resources Co., Ltd ("**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**"). On October 24, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by DKKK and Rhodia Operations alleging infringement of patent ZL 200710146613.6. DKKK and Rhodia Operations have appealed these decisions.

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.

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. Rhodia Operations has appealed this decision.

On May 16, 2019, the Intermediate People's Court of Zibo, China, ruled in favor of ZAMR by finding that ZAMR had not infringed patent ZL 94194552.9. Rhodia Operations and DKKK have 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.

<b>Patent Reference</b>	<b>Jurisdiction of Claim</b>	<b>Specified Damages by Claimant</b>
Chinese patent ZL 03817110.4	China	\$3.0 million
Chinese patent ZL 200710146613.6	China	\$2.3 million
European patent 0863846 B1	Germany	\$8.0 million
European patent 0735984 B1	Germany	\$6.0 million
Chinese patent ZL 94194552.9	China	\$0.8 million
Chinese patent ZL 96196505.3	China	\$6.8 million
Chinese patent ZL 97195463.1	China	\$0.8 million
European & UK patents 1435338 B1	UK	Not specified
European & UK patents 1435338 B1	Germany	Not specified
European patent 0605274 B1	Germany	Not specified
European patent 0955267	Germany	Not specified
European patent 1527018	Germany	Not specified
European patent 2007682	Germany	Not specified

Management has made an assessment, based on its interpretation of the claims as to the quantum of the appropriate provision for certain claims. 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.

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**NOTE 16      SHARE CAPITAL**

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	<b>September 30, 2019</b>	<b>December 31, 2018</b>
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 . . . . .	38,221,781	39,650,340
Total treasury shares . . . . .	—	—

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

**Normal Course Issuer Bid**

On March 19, 2019, Neo announced that the TSX has accepted a notice filed by Neo of its intention to make a Normal Course Issuer Bid (the "**Bid**") for up to 1,982,517 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.

For the three and nine months ended September 30, 2019, Neo repurchased and canceled 670,649 and 1,479,806 shares for a total consideration of \$5.7 million and \$13.2 million, respectively. For the three and nine months ended September 30, 2018, Neo repurchased and canceled 92,223 and 146,869 shares under a previously announced normal course issuer bid for a total consideration of \$1.2 million and \$1.9 million, respectively.

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**NOTE 17 EARNINGS PER SHARE**


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**17.1 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, 2019, and 2018. The weighted average number of shares outstanding is calculated as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Common shares issued at beginning of period . . . .	38,841,183	39,866,931	39,650,340	39,921,577
Weighted average impact of:				
Issuance of common shares . . . . .	14,483	21,157	4,881	7,130
Repurchase and cancellation of common shares under Normal Course Issuer Bid. . . .	(333,350)	(72,990)	(537,656)	(49,587)
<b>Weighted average number of common shares for the period - basic . . . . .</b>	<b>38,522,316</b>	<b>39,815,098</b>	<b>39,117,565</b>	<b>39,879,120</b>

**17.2 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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net income attributable to equity holders of Neo Performance Materials Inc. - basic and diluted . . . .	\$ 3,944	\$ 8,669	\$ 18,281	\$ 36,510
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Weighted average number of common shares - basic . . . . .	38,522,316	39,815,098	39,117,565	39,879,120
Dilutive effect of Stock Units . . . . .	130,595	556,522	174,355	561,296
<b>Weighted average number of common shares - diluted . . . . .</b>	<b>38,652,911</b>	<b>40,371,620</b>	<b>39,291,920</b>	<b>40,440,416</b>
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Earnings per share - basic . . . . .	\$ 0.10	\$ 0.22	\$ 0.47	\$ 0.92
Earnings per share - diluted . . . . .	\$ 0.10	\$ 0.21	\$ 0.47	\$ 0.90

For the three and nine months ended September 30, 2019, 915,815 (three and nine months ended September 30, 2018: 1,099,182) 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 at September 30, 2019.

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**NOTE 18 INCOME TAXES**

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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.

Neo's effective tax rate was 48.1% and 32.6% for the three and nine months ended September 30, 2019, respectively, and 31.5% and 21.9% for the three and nine months ended September 30, 2018.

The difference in effective tax rates is due primarily to changes in the mix and volume of earnings in different tax jurisdictions. In addition, during the three and nine months ended September 30, 2018, Neo recorded other income of \$3.9 million and \$11.8 million, respectively, related to insurance claims affecting its subsidiary in Estonia. As these proceeds are not currently taxable and will not be distributed in the foreseeable future, a tax liability has not been recognized.

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**NOTE 19 SHARE-BASED COMPENSATION**

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On May 9, 2018, Neo adopted a long-term incentive plan (the "LTIP"). Neo granted Options under the Stock Option Plan, and Deferred Share Units ("DSUs") under the Directors Share Unit Plan, and Restricted Share Units ("RSUs"), Performance Stock Units ("PSUs") and Additional PSUs, under the LTIP. The Additional PSUs granted under the Legacy Plan and the LTIP, have all been cancelled as at December 31, 2018 as the liquidity event condition was not met.

The following table shows the share-based compensation expense recorded in the unaudited interim condensed consolidated statements of profit or loss during the three and nine months ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Options .....	\$ 92	\$ 227	\$ 152	\$ 597
RSUs .....	140	594	(43)	1,320
PSUs .....	(66)	322	71	1,268
Special PSUs .....	—	58	—	196
DSUs .....	(93)	277	197	277
<b>Total</b> .....	<b>\$ 73</b>	<b>\$ 1,478</b>	<b>\$ 377</b>	<b>\$ 3,658</b>

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 cost 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.

Neo granted 32,783 DSUs on June 24, 2019 and 60,177 RSUs on September 18, 2019.

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## **NOTE 20      RELATED PARTY TRANSACTIONS**

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

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

### **20.1      Transactions with associates**

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

For the three and nine months ended September 30, 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. For the three and nine months ended September 30, 2019, Neo sold oxides to Keli amounting to nil and \$1.2 million, respectively.

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

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

### **20.2      Transactions with joint venturers**

Neo, through its sales company in Japan, Neo Japan Inc., has occasionally purchased Gallium from Beijing Jiya Semiconductor Material Co., Ltd. ("**Beijing Jiya**") for resale to third party customers. No purchases were made in the three and nine months ended September 30, 2019. For the three and nine months ended September 30, 2018, these purchases were nil and \$0.7 million, respectively.

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, 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.

For the three and nine months ended September 30, 2018, purchases from Qian Dong were minimal and \$0.3 million, respectively. Sales to Toda for the three and nine months ended September 30, 2018, were \$0.2 million and \$0.8 million, respectively.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Sale of goods and services to related parties . . . . .	\$ 1,323	\$ 1,952	\$ 4,906	\$ 4,018
Purchase of goods and services from related parties . . .	7,342	17,734	28,011	54,177
			<b>September 30, 2019</b>	<b>December 31, 2018</b>
Trade balances:				
from related parties . . . . .		\$ 486	\$ 486	\$ 327
due to related parties . . . . .		(337)	(337)	(5,102)
<b>Total</b> . . . . .		<b>\$ 149</b>	<b>\$ 149</b>	<b>\$ (4,775)</b>

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**NOTE 21      DIRECTORS AND KEY MANAGEMENT COMPENSATION**

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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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Directors . . . . .	\$ 84	\$ 70	\$ 225	\$ 211
Key Executive Management . . . . .	992	2,039	2,862	3,840
Total . . . . .	<b>\$ 1,076</b>	<b>\$ 2,109</b>	<b>\$ 3,087</b>	<b>\$ 4,051</b>

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Directors	\$ (87)	\$ 294	\$ 190	\$ 446
Key Executive Management	234	(33)	264	1,886
Total	<b>\$ 147</b>	<b>\$ 261</b>	<b>\$ 454</b>	<b>\$ 2,332</b>

Neo granted 32,783 DSUs on June 24, 2019, and 60,177 RSUs on September 18, 2019.

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 cost 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.

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**NOTE 22 FINANCIAL RISK MANAGEMENT**

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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.

**22.1 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.

**22.2 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, 2019:

	<b>Chinese Renminbi</b>	<b>Euro</b>	<b>USD</b>	<b>Thai Baht</b>	<b>Canadian Dollar</b>	<b>British Pound</b>
Cash and cash equivalents . . . . .	\$ 5,420	\$ 961	\$ 7,147	\$ 2,291	\$ 2,523	\$ 312
Accounts receivable . . . . .	2,680	685	1,807	1,427	—	2
Other receivable . . . . .	14	1,368	—	3,067	474	—
Accounts payable and accrued liabilities . . . . .	(5,523)	(5,385)	(3)	(1,487)	(843)	(564)
Lease obligations . . . . .	(124)	(35)	—	(27)	(149)	(38)
Income taxes payable . . . . .	(391)	(905)	—	—	(576)	—
<b>Net financial assets (liabilities) . . . . .</b>	<b>\$ 2,076</b>	<b>\$ (3,311)</b>	<b>\$ 8,951</b>	<b>\$ 5,271</b>	<b>\$ 1,429</b>	<b>\$ (288)</b>

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, 2019 for Neo's financial instruments denominated in non-functional currencies:

	<u>Chinese Renminbi</u>	<u>Euro</u>	<u>Thai Baht</u>	<u>Canadian Dollar</u>	<u>British Pound</u>
1% Strengthening					
Net earnings before tax .....	\$ 21	\$ (33)	\$ 53	\$ 14	\$ (3)
1% Weakening					
Net earnings before tax .....	(21)	33	(53)	(14)	3

The effect on profit or loss of a one-percentage point strengthening or weakening of U.S. dollar financial assets and liabilities held in non-U.S. dollar functional currency subsidiaries is a \$52 thousand gain or loss, respectively.

### 22.3 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, 2019, Neo has no outstanding bank loans and no amount drawn from the line of credit, and thus does not have significant exposure to interest rate fluctuations.

### 22.4 Credit risk

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

Under IFRS 9, Neo establishes a loss allowance using the ECL impairment model; therefore, the carrying amount of accounts receivable generally represents the maximum credit exposure. As at September 30, 2019, Neo recorded a loss allowance of \$0.2 million. The estimated credit losses, if any, is included in selling, general and administrative expenses in the consolidated statements of profit or loss and is net of any recoveries that were provided for in prior periods.

Counterparties to financial instruments may expose Neo to credit losses in the event of non-performance. Counterparties for derivative and cash transactions are limited to high credit quality financial institutions, which are monitored on an ongoing basis. Counterparty credit assessments are based on the financial health of the institutions and their credit ratings from external agencies. As at September 30, 2019, Neo does not anticipate non-performance that would materially impact Neo's financial statements.

### 22.5 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 23](#). 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, 2019:

<b><u>Financial liabilities</u></b>	<b><u>1 year</u></b>	<b><u>2-3 years</u></b>	<b><u>4-5 years</u></b>	<b><u>Beyond 5 years</u></b>	<b><u>Total</u></b>
Accounts payable and other accrued charges . . . . .	46,456	—	—	—	46,456
Derivative liability* . . . . .	—	—	—	11,554	11,554
Provisions . . . . .	—	4,717	—	—	4,717
Lease obligations . . . . .	1,591	1,912	651	102	4,256
Other liabilities . . . . .	52	2,054	—	—	2,106
<b>Total</b> . . . . .	<b>\$48,099</b>	<b>\$ 8,683</b>	<b>\$ 651</b>	<b>\$11,656</b>	<b>\$69,089</b>

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

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**NOTE 23 CAPITAL DISCLOSURES**

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Neo's objectives when managing its capital are:

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

Neo defines its capital as follows:

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

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

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

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

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

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**NOTE 24      SUBSEQUENT EVENTS**

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**24.1      Normal Course Issuer Bid**

Between October 1 and November 12, 2019, Neo repurchased, for cancellation, 329,604 shares for a total consideration of \$2.9 million.

**24.2      Dividends payable to equity holders of Neo**

On November 12, 2019, the Board of Directors declared a quarterly dividend of Cdn \$0.10 per common share payable in cash on December 30, 2019, to common shareholders of record at the close of business on December 20, 2019.