



*Performance Materials*

**NEO PERFORMANCE MATERIALS INC.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE-MONTH PERIOD ENDED MARCH 31, 2023**

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

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	145,742	147,491
Restricted cash	1,192	1,179
Accounts receivable	65,998	81,409
Inventories <a href="#">(Note 5)</a>	187,646	212,702
Income taxes receivable	1,260	355
Other current assets	29,788	23,279
<b>Total current assets</b>	<b>431,626</b>	<b>466,415</b>
Property, plant and equipment <a href="#">(Note 6)</a>	78,162	75,767
Intangible assets	42,198	42,984
Goodwill	66,613	66,042
Investments <a href="#">(Note 7)</a>	15,994	16,363
Deferred tax assets	8,706	6,956
Other non-current assets	1,531	1,933
<b>Total non-current assets</b>	<b>213,204</b>	<b>210,045</b>
<b>Total assets</b>	<b>644,830</b>	<b>\$ 676,460</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current</b>		
Bank advances and other short-term debt <a href="#">(Note 9)</a>	3,222	17,288
Accounts payable and other accrued charges	57,765	69,093
Income taxes payable	9,097	10,033
Provisions <a href="#">(Note 19)</a>	1,347	1,369
Lease obligations	1,394	1,264
Derivative liability <a href="#">(Note 8)</a>	31,990	28,570
Current portion of long-term debt <a href="#">(Note 9)</a>	763	747
Other current liabilities	599	278
<b>Total current liabilities</b>	<b>106,177</b>	<b>128,642</b>
Long-term debt <a href="#">(Note 9)</a>	29,902	29,885
Employee benefits	473	489
Provisions <a href="#">(Note 19)</a>	24,387	23,604
Deferred tax liabilities	14,207	13,942
Lease obligations	1,544	813
Other non-current liabilities	1,443	1,442
<b>Total non-current liabilities</b>	<b>71,956</b>	<b>70,175</b>
<b>Total liabilities</b>	<b>178,133</b>	<b>198,817</b>
Non-controlling interest	2,949	3,193
Equity attributable to equity holders of Neo Performance Materials Inc.	463,748	474,450
<b>Total equity</b>	<b>466,697</b>	<b>477,643</b>
<b>Total liabilities and equity</b>	<b>644,830</b>	<b>\$ 676,460</b>

Commitments and contingencies [\(Note 12\)](#)

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)

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Revenue</b> .....	135,530	166,282
<b>Costs of sales</b>		
Costs excluding depreciation and amortization .....	116,621	114,316
Depreciation and amortization .....	2,168	2,378
<b>Gross profit</b> .....	<u>16,741</u>	<u>49,588</u>
<b>Expenses</b>		
Selling, general and administrative .....	14,871	14,252
Share-based compensation <a href="#">(Note 16)</a> .....	850	181
Depreciation and amortization .....	1,766	1,896
Research and development .....	3,251	4,574
	<u>20,738</u>	<u>20,903</u>
<b>Operating (loss) income</b> .....	<b>(3,997)</b>	<b>28,685</b>
Other expense .....	(478)	(433)
Finance cost, net <a href="#">(Note 20)</a> .....	(4,012)	(414)
Foreign exchange loss .....	(580)	(411)
<b>(Loss) income from operations before income taxes and equity (loss) income of associates</b> .....	<u>(9,067)</u>	<u>27,427</u>
Income tax expense <a href="#">(Note 15)</a> .....	(1,610)	(5,995)
<b>(Loss) income from operations before equity income of associates</b> .....	<u>(10,677)</u>	<u>21,432</u>
Equity (loss) income of associates (net of income tax) <a href="#">(Note 7)</a> ..	(23)	1,269
<b>Net (loss) income</b> .....	<b>\$ (10,700)</b>	<b>\$ 22,701</b>
<b>Attributable to:</b>		
Equity holders of Neo Performance Materials Inc. ....	\$ (10,454)	\$ 22,350
Non-controlling interest .....	(246)	351
	<u>\$ (10,700)</u>	<u>\$ 22,701</u>
<b>(Loss) earnings per share attributable to equity holders of Neo Performance Materials Inc.:</b>		
Basic <a href="#">(Note 14)</a> .....	\$ (0.23)	\$ 0.55
Diluted <a href="#">(Note 14)</a> .....	\$ (0.23)	\$ 0.54

*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 March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Net (loss) income for the period</b> .....	\$ (10,700)	\$ 22,701
<b>Other comprehensive income:</b>		
Item that is or may be reclassified subsequently to profit or loss:		
Currency translation adjustment .....	2,403	365
<b>Other comprehensive income for the period</b> .....	<b>2,403</b>	<b>365</b>
<b>Total comprehensive (loss) income for the period</b> .....	<b>\$ (8,297)</b>	<b>\$ 23,066</b>
<b>Attributable to:</b>		
Equity holders of Neo Performance Materials Inc. ....	(8,073)	22,709
Non-controlling interest .....	(224)	357
	<b>\$ (8,297)</b>	<b>\$ 23,066</b>

*See accompanying notes*

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

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Operating activities</b>		
Net (loss) income for the period	\$ (10,700)	\$ 22,701
Add (deduct) items not affecting cash:		
Depreciation and amortization	3,934	4,274
Share-based compensation	850	181
Provisions (Note 19)	708	5,981
Change in pension liability	(16)	(33)
Finance cost, net (Note 20)	4,012	414
Equity loss (income) of associates, net of income tax (Note 7)	23	(1,269)
Loss on disposal of assets	193	48
Income tax expense (Note 15)	1,610	5,995
Foreign exchange (gain) loss	(367)	321
Other	389	(340)
Net change in non-cash working capital balances related to operations (Note 11)	23,794	(66,838)
Payments made to settle provisions (Note 19)	(45)	—
Income taxes paid, net of income taxes recovered	(5,261)	(1,365)
Interest received, net of interest paid	(194)	(94)
<b>Cash provided by (used in) operating activities</b>	<b>\$ 18,930</b>	<b>\$ (30,024)</b>
<b>Investing activities</b>		
Additions of property, plant and equipment	(3,509)	(2,415)
Prepayments of right-of-use assets	—	(4,362)
Additions of intangible assets	(3)	(5)
<b>Cash used in investing activities</b>	<b>\$ (3,512)</b>	<b>\$ (6,782)</b>
<b>Financing activities</b>		
(Repayment of) increase in bank advances and other short-term debt, net (Note 9)	(14,132)	12,408
Dividends paid to non-controlling interest	(20)	—
Dividends paid to equity holders of Neo Performance Materials Inc.	(3,379)	(3,183)
Lease payments	(657)	(533)
Withholding taxes paid, net of amount received from issuance of common shares on stock-based awards	—	144
<b>Cash (used in) provided by financing activities</b>	<b>\$ (18,188)</b>	<b>\$ 8,836</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>1,021</b>	<b>76</b>
<b>Cash used during the period</b>	<b>(1,749)</b>	<b>(27,894)</b>
Cash and cash equivalents, beginning of period	147,491	89,037
<b>Cash and cash equivalents, end of period</b>	<b>\$ 145,742</b>	<b>\$ 61,143</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			Total		
	Common Stock		Retained Earnings (Deficit)	Contributed Surplus	Currency Translation Adjustment	Pension Plan Actuarial Gains, net of tax	Accumulated Other Comprehensive Income	Equity Attributable to Equity Holders of NPM Inc.	Non-Controlling Interest	Equity
	Number	Amount								
<b>Balance - January 1, 2023</b>	<b>45,196,921</b>	<b>\$ 45</b>	<b>\$ (6,707)</b>	<b>\$ 490,803</b>	<b>\$ (11,144)</b>	<b>\$ 1,453</b>	<b>\$ (9,691)</b>	<b>\$ 474,450</b>	<b>\$ 3,193</b>	<b>\$ 477,643</b>
Net loss	—	—	(10,454)	—	—	—	—	(10,454)	(246)	(10,700)
Other comprehensive income	—	—	—	—	2,381	—	2,381	2,381	22	2,403
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>(10,454)</b>	<b>—</b>	<b>2,381</b>	<b>—</b>	<b>2,381</b>	<b>(8,073)</b>	<b>(224)</b>	<b>(8,297)</b>
Share-based compensation	—	—	—	750	—	—	—	750	—	750
Dividends paid to equity holders of Neo Performance Materials Inc. (Cdn \$0.10 per common share)	—	—	(3,379)	—	—	—	—	(3,379)	—	(3,379)
Dividend distributions to non-controlling interest	—	—	—	—	—	—	—	—	(20)	(20)
	—	—	(3,379)	750	—	—	—	(2,629)	(20)	(2,649)
<b>Balance - March 31, 2023</b>	<b>45,196,921</b>	<b>\$ 45</b>	<b>\$ (20,540)</b>	<b>\$ 491,553</b>	<b>\$ (8,763)</b>	<b>\$ 1,453</b>	<b>\$ (7,310)</b>	<b>\$ 463,748</b>	<b>\$ 2,949</b>	<b>\$ 466,697</b>
<b>Balance - January 1, 2022</b>	<b>40,668,902</b>	<b>\$ 41</b>	<b>\$ (19,253)</b>	<b>\$ 439,795</b>	<b>\$ 6,034</b>	<b>\$ 1,008</b>	<b>\$ 7,042</b>	<b>\$ 427,625</b>	<b>\$ 2,891</b>	<b>\$ 430,516</b>
Net income	—	—	22,350	—	—	—	—	22,350	351	22,701
Other comprehensive income	—	—	—	—	359	—	359	359	6	365
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>22,350</b>	<b>—</b>	<b>359</b>	<b>—</b>	<b>359</b>	<b>22,709</b>	<b>357</b>	<b>23,066</b>
Share-based compensation	—	—	—	725	—	—	—	725	—	725
Dividends paid to equity holders of Neo Performance Materials Inc. (Cdn \$0.10 per common share)	—	—	(3,183)	—	—	—	—	(3,183)	—	(3,183)
Issuance of common shares on stock-based awards	13,000	—	—	122	—	—	—	122	—	122
	13,000	—	(3,183)	847	—	—	—	(2,336)	—	(2,336)
<b>Balance - March 31, 2022</b>	<b>40,681,902</b>	<b>\$ 41</b>	<b>\$ (86)</b>	<b>\$ 440,642</b>	<b>\$ 6,393</b>	<b>\$ 1,008</b>	<b>\$ 7,401</b>	<b>\$ 447,998</b>	<b>\$ 3,248</b>	<b>\$ 451,246</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.

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 1,650 employees and has a global platform that includes 9 manufacturing facilities located in China, the United States ("U.S."), Germany, Canada, Estonia, and Thailand as well as one dedicated research and development ("R&D") centre in Singapore. Since 1994, Neo has leveraged its processing expertise to innovate and grow into a leading manufacturer of advanced industrial materials for specialty end markets. Neo has established itself as a leading commercial partner to some of the world's largest customers in the automotive, manufacturing, semiconductor, advanced electronic and specialty chemical industries. As a result, Neo is well positioned in markets that are forecast to see robust, long-term growth driven by multiple global macro trends, such as vehicle electrification, industrial automation, consumer electronics, energy efficient lighting, air and water pollution control, and superalloys. Neo identifies growth markets driven by global macro trends such as these, and produces highly engineered industrial materials that are critical to the performance of applications in those markets.

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

***Magnequench***

The Magnequench segment, with more than 30 years of manufacturing experience, is the world leader in the production of permanent magnetic powders used in bonded and hot-deformed, fully dense neodymium-iron-boron ("**NdFeB**" or "**neo**") magnets. These powders are formed through Magnequench's market-leading technology related to the development, processing, and manufacturing of neo magnetic powders. Magnequench uses a proprietary process to manufacture Magnequench Powder using a blend of various inputs. Magnequench also manufactures magnets using these bonded magnetic powders. These powders and bonded permanent magnets are used in the following: motors used in various automotive applications for hybrid, electric, and internal combustion engine vehicles; micro motors for household applications like vacuum cleaners, refrigerators, hair dryers, air conditioners and residential heating and cooling circulation pumps; industrial and other sensors; and other applications requiring high levels of magnetic strength, improved performance, and reduced size and weight.

On April 18, 2023, Neo announced that it has agreed to acquire 90% of the outstanding share capital of SG Technologies Group Limited ("**SGTec**"), one of Europe's leading advanced, specialty manufacturers of rare-earth-based and other high-performance magnets for industrial and commercial markets. The acquisition was completed on April 19, 2023. For further details of this acquisition, see Note 22.2.

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

### ***Corporate***

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

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

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These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). These interim condensed consolidated financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") issued by the IASB for annual financial statements and should be read in conjunction with Neo's audited annual financial statements and accompanying notes for the year ended December 31, 2022. The significant accounting policies disclosed in Note 4 of Neo's audited annual financial statements for the year ended December 31, 2022 have been applied consistently in the preparation of these interim condensed consolidated financial statements.

The interim condensed consolidated financial statements were approved and authorized for issuance by Neo's Board of Directors ("**Board**") on May 10, 2023.

### **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.

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## **NOTE 3            BASIS OF PREPARATION**

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

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

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

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## **NOTE 4            RECENT ACCOUNTING PRONOUNCEMENTS**

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### **4.1        Neo adopted the following accounting standards and amendments to accounting standards during the period ended March 31, 2023:**

#### ***4.1.1    Definition of Accounting Estimates (Amendments to IAS 8)***

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

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

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

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

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

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

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

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

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

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

The amendments are effective for annual periods beginning on or after January 1, 2023. Early adoption is permitted. The amendment was adopted by Neo on January 1, 2023 and the amendment did not have a material impact on the consolidated financial statements.

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

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

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

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

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**NOTE 5 INVENTORIES**

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

	<u>March 31, 2023</u>	<u>December 31, 2022</u>
Raw materials .....	\$ 54,326	\$ 58,426
Work-in-progress .....	46,044	55,618
Finished goods .....	80,450	91,621
Supplies .....	6,826	7,037
<b>Total</b> .....	<u>\$ 187,646</u>	<u>\$ 212,702</u>

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

For the three months ended March 31, 2023, a total of \$113.3 million of inventories was included in cost of sales compared to \$114.2 million for the three months ended March 31, 2022. This included \$5.6 million of provisions for inventories in the three months ended March 31, 2023 and \$0.6 million in the three months ended March 31, 2022.

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**NOTE 6            PROPERTY, PLANT AND EQUIPMENT**

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	<b>Land</b>	<b>Building &amp; improvements</b>	<b>Machinery &amp; Equipment</b>	<b>Right- of-use Assets</b>	<b>Office equipment</b>	<b>Construction in Progress (net of transfer)</b>	<b>Total</b>
<b>At January 1, 2023</b>							
Cost .....	\$ 2,550	\$ 35,091	\$ 78,490	\$ 11,414	\$ 8,055	\$ 11,102	\$146,702
Accumulated depreciation .....	—	(15,819)	(45,924)	(4,972)	(4,220)	—	(70,935)
<b>Opening net book value at January 1, 2022 .....</b>	<b>\$ 2,550</b>	<b>\$ 19,272</b>	<b>\$ 32,566</b>	<b>\$ 6,442</b>	<b>\$ 3,835</b>	<b>\$ 11,102</b>	<b>\$ 75,767</b>
Additions of property, plant, and equipment .....	458	79	134	—	96	2,742	3,509
Additions of right-of-use assets <sup>(1)</sup> .....	—	—	—	1,504	—	—	1,504
Write-offs, net of cost and accumulated depreciation .....	—	—	(193)	—	—	—	(193)
Transfers .....	—	52	473	—	178	(703)	—
Currency translation adjustments .....	—	126	198	12	36	16	388
Depreciation expense .....	—	(434)	(1,702)	(433)	(244)	—	(2,813)
<b>Closing net book value at March 31, 2023 .....</b>	<b>\$ 3,008</b>	<b>\$ 19,095</b>	<b>\$ 31,476</b>	<b>\$ 7,525</b>	<b>\$ 3,901</b>	<b>\$ 13,157</b>	<b>\$ 78,162</b>

**Comprised of:**

Cost .....	\$ 3,008	\$ 35,457	\$ 79,212	\$ 12,909	\$ 8,378	\$ 13,157	\$152,121
Accumulated depreciation .....	—	(16,362)	(47,736)	(5,384)	(4,477)	—	(73,959)

**Notes:**

(1) Additions of right-of-use assets were excluded in the Statement of Cash Flows as these have not yet been paid.

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

**Comprised of:**

Cost .....	\$ 2,550	\$ 35,091	\$ 78,490	\$ 11,414	\$ 8,055	\$ 11,102	\$146,702
Accumulated depreciation	—	(15,819)	(45,924)	(4,972)	(4,220)	—	(70,935)

**Notes:**

- (1) Additions of right-of-use assets in the amount of \$0.7 million were excluded from "Additions of right-of-use assets" in the Statement of Cash Flows as these have not yet been paid.

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**NOTE 7 INVESTMENTS**

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**Investment in Associates**

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

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

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

	<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:

	<b>TMT</b>	<b>Keli</b>	<b>GQD</b>	<b>Total</b>
Carrying value at January 1, 2023 . . . . .	\$ 2,373	\$ 11,760	\$ 2,230	\$ 16,363
Share of results in associates . . . . .	(17)	(87)	81	(23)
Unrealized profit from sales to associates . . . . .	(346)	—	—	(346)
<b>Carrying value at March 31, 2023</b> . . . . .	<b>\$ 2,010</b>	<b>\$ 11,673</b>	<b>\$ 2,311</b>	<b>\$ 15,994</b>
Carrying value at January 1, 2022 . . . . .	\$ 2,302	\$ 9,760	\$ 1,697	\$ 13,759
Share of results in associates . . . . .	250	2,000	533	2,783
Dividends received from associates . . . . .	(179)	—	—	(179)
<b>Carrying value at December 31, 2022</b> . . . . .	<b>\$ 2,373</b>	<b>\$ 11,760</b>	<b>\$ 2,230</b>	<b>\$ 16,363</b>

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**NOTE 8 CATEGORIES OF FINANCIAL INSTRUMENTS**

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

<b><u>Financial Assets</u></b>	<b><u>March 31, 2023</u></b>	<b><u>December 31, 2022</u></b>
<b>Fair value through profit or loss</b>		
Equity securities <sup>(1)</sup> . . . . .	\$ 553	\$ 902
<b>Measured at amortized cost <sup>(2)</sup></b>		
Cash and cash equivalents: . . . . .		
Cash . . . . .	138,127	139,962
Short-term deposits <sup>(3)</sup> . . . . .	7,615	7,529
Total cash and cash equivalents . . . . .	145,742	147,491
Restricted cash . . . . .	1,192	1,179
Accounts receivable . . . . .	65,998	81,409
	<u>\$ 212,932</u>	<u>\$ 230,079</u>
<b>Total financial assets</b> . . . . .	<b>\$ 213,485</b>	<b>\$ 230,981</b>

<b>Financial Liabilities</b>	<b>March 31, 2023</b>	<b>December 31, 2022</b>
<b>Fair value through profit or loss</b>		
Put option issued to non-controlling interest of Buss & Buss (derivative liability) .....	\$ 31,990	\$ 28,570
<b>Measured at amortized cost <sup>(2)</sup></b>		
Current:		
Bank advances and other short-term debt .....	3,222	17,288
Accounts payable and other accrued charges .....	57,765	69,093
Current portion of long-term debt <sup>(4)</sup> .....	763	747
	\$ 61,750	\$ 87,128
Non-current:		
Long-term debt <sup>(4)</sup> .....	\$ 29,902	\$ 29,885
<b>Total financial liabilities</b> .....	<b>\$ 123,642</b>	<b>\$ 145,583</b>

**Notes:**

- (1) The equity securities are re-measured at each reporting period with the change in fair value recorded in finance cost or income. For the three months ended March 31, 2023, the fair value of these equity securities decreased by \$0.4 million.
- (2) Carrying value of financial instruments measured at amortized cost is a reasonable approximation of their fair value.
- (3) Short-term deposits have a maturity of 3 months or less.
- (4) Estonia debt facility (see Note 9.3) and the first tranche of the Export Development Canada credit facility term loan in the amount of \$25.0 million (see Note 9.4).

### 8.1 Derivative liability

As at March 31, 2023, Neo's derivative liability is comprised of a put option issued to the non-controlling interest of a consolidated subsidiary Buss & Buss Spezialmetalle GmbH ("**Buss & Buss**"). The put option liability is subsequently re-measured at each reporting period based on 90% of the fair value and the change in the put option liability is recorded in the consolidated statements of profit or loss.

For the three months ended March 31, 2023, the change in the fair value of the derivative liability was an increase of \$3.4 million. The fair value of the derivative is based on the best market information available to management, including assumptions regarding the forecasted pricing of the advanced industrial materials Buss & Buss produces. The main driver of the change period-over-period, was due to changes in these assumptions, and the discount rate. For the three months ended March 31, 2022, the change in the fair value of the derivative liability was nominal.

### 8.2 Financial assets and liabilities measured at fair value

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

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

The level in which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the consolidated statement of financial position as at March 31, 2023, are grouped into the fair value hierarchy as follows:

	Level 1	Level 2	Level 3
<b>Financial Assets:</b>			
Equity securities .....	\$ 553	\$ —	\$ —
<b>Financial Liabilities:</b>			
Put option issued to non-controlling interest of Buss & Buss .....	\$ —	\$ —	\$ 31,990

Neo's equity securities, classified in Level 1, is measured at FVTPL based on the stock price of the securities that is publicly available. The following table shows the change in the fair value of the equity securities for the three months ended March 31, 2023:

	March 31, 2023	December 31, 2022
Opening balance - January 1, 2023 and 2022, respectively .....	\$ 902	\$ 2,056
Increase in finance costs .....	(357)	(1,075)
Foreign exchange gain (loss) .....	8	(79)
<b>Ending balance</b>	<b>\$ 553</b>	<b>\$ 902</b>

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

Changing inputs to the Level 3 valuations to reasonably possible alternative assumptions may significantly change amounts recognized in net income, total assets, total liabilities or total equity.

There have been no transfers between levels for the period ended March 31, 2023.

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

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

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### 9.1 Chinese debt facility

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

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

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

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

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

During the three months ended March 31, 2023, \$6.5 million (RMB 44.2 million) was repaid by the Chinese subsidiaries. As a result of the repayment, the balance drawn on the Facilities under Tranche II as at March 31, 2023 was \$2.9 million (RMB 20.0 million) (December 31, 2022: \$9.2 million (RMB 64.2 million)). This amount drawn is repayable within twelve months.

Neo and the relevant borrowing parties were not in compliance with the financial covenant of maintaining a minimum EBITDA level as specified in the Facilities agreement for the period ended March 31, 2023. The non-compliance did not have a material impact on the interim condensed consolidated financial statements, as:

- The amount drawn on this facility (March 31, 2023 - \$2.9 million) was already classified and presented as a current liability, and continues to be as of period-end;
- The amount drawn was fully repaid subsequent to period end, on April 24, 2023, which has remediated the covenant non-compliance; and
- There were no cross-default events, relating to Neo's other facility agreements, as a result of this non-compliance.

## ***9.2 German debt facility***

As at March 31, 2023, Buss & Buss has a \$13.6 million (€12.5 million) revolving line of credit which can be drawn either in Euros or U.S. dollars. The bank is entitled to revise the interest rate if the three-month Euro Interbank Offered Rate ("**Euribor**") average rate changes by more than 0.25%, up to a maximum of 0.1% plus the actual change in average rate.

During the three months ended March 31, 2023, Buss & Buss repaid \$7.8 million (€7.3 million) of the revolving line of credit. As at March 31, 2023, \$0.3 million (€0.3 million) remained drawn (December 31, 2022: \$8.1 million (€7.6 million)) on the revolving line of credit. This amount drawn is repayable within twelve months.

There are no financial covenants which need to be met.

### **9.3 Estonia debt facility**

During the three months ended March 31, 2023, Silmet repaid \$0.2 million (€0.2 million) such that as at March 31, 2023, \$6.9 million (€6.3 million) remains drawn (December 31, 2022: \$6.9 million (€6.5 million) was drawn). The current portion of this term debt facility as at March 31, 2023 was \$0.8 million (€0.7 million), while \$6.1 million (€5.6 million) was classified as long-term.

### **9.4 Export Development Canada credit facility**

On December 14, 2022, the first tranche of \$25.0 million was advanced to Neo. As at March 31, 2023, the carrying amount of the loan, measured at amortized cost, was \$23.8 million (December 31, 2022: \$23.7 million). Total interest expense for the three- month period ended March 31, 2023 was \$0.6 million.

There were no defaults of principal or interest payments and no breaches of the loan agreement during the three-month period ended March 31, 2023, and Neo is in compliance with all covenants in the Credit Facility agreement as of March 31, 2023.

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## **NOTE 10      OPERATING SEGMENTS**

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The primary metric used to measure the financial performance of each operating segment is EBITDA before equity income (loss) in associates, other income (expense), foreign exchange (gain) loss, share and value-based compensation, impairment of assets, and other costs (recoveries) ("**Adjusted EBITDA**"), which management believes provides a better indication of the base-line performance of Neo's core business operations.

A comparative breakdown of business segment information is as follows:

**For the three months ended March 31, 2023:**

	<b>Magnequench</b>	<b>Chemicals &amp; Oxides</b>	<b>Rare Metals</b>	<b>Corporate</b>	<b>Total for reportable segments</b>	<b>Eliminations</b>	<b>Total</b>
External revenue .....	\$ 55,165	\$ 51,289	\$ 29,076	\$ —	\$ 135,530	\$ —	\$ 135,530
Inter-segment revenue .....	—	—	—	—	—	—	—
<b>Total revenue .....</b>	<b>\$ 55,165</b>	<b>\$ 51,289</b>	<b>\$ 29,076</b>	<b>\$ —</b>	<b>\$ 135,530</b>	<b>\$ —</b>	<b>\$ 135,530</b>
<b>Net Income (loss) .....</b>	<b>\$ 1,043</b>	<b>\$ (7,245)</b>	<b>\$ (444)</b>	<b>\$ (4,089)</b>	<b>\$ (10,735)</b>	<b>\$ 35</b>	<b>\$ (10,700)</b>
Finance (income) cost, net ..	(95)	631	3,563	(87)	4,012	—	4,012
Income tax expense (recovery) .....	121	(318)	1,806	1	1,610	—	1,610
Depreciation and amortization included in costs of sales .....	828	1,126	214	—	2,168	—	2,168
Depreciation and amortization included in operating expenses .....	1,330	283	68	85	1,766	—	1,766
<b>EBITDA .....</b>	<b>\$ 3,227</b>	<b>\$ (5,523)</b>	<b>\$ 5,207</b>	<b>\$ (4,090)</b>	<b>\$ (1,179)</b>	<b>\$ 35</b>	<b>\$ (1,144)</b>

**Reconciliation to Adjusted EBITDA:**

EBITDA .....	\$ 3,227	\$ (5,523)	\$ 5,207	\$ (4,090)	\$ (1,179)	\$ 35	\$ (1,144)
Other expense (income) ..	150	358	(30)	—	478	—	478
Foreign exchange (gain) loss .....	(288)	448	936	(516)	580	—	580
Equity loss of associates ..	23	—	—	—	23	—	23
Share-based compensation (1) .....	144	155	51	500	850	—	850
Adjusted EBITDA (2) .....	<b>\$ 3,256</b>	<b>\$ (4,562)</b>	<b>\$ 6,164</b>	<b>\$ (4,106)</b>	<b>\$ 752</b>	<b>\$ 35</b>	<b>\$ 787</b>
Capital expenditures .....	\$ 2,220	\$ 2,330	\$ 466	\$ —	\$ 5,016	\$ —	\$ 5,016

**Notes:**

- (1) Represents share-based compensation expense in respect of the Plan [\(Note 16\)](#) and the LTIP.
- (2) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

**For the three months ended March 31, 2022:**

	<b>Magnequench</b>	<b>Chemicals &amp; Oxides</b>	<b>Rare Metals</b>	<b>Corporate</b>	<b>Total for reportable segments</b>	<b>Eliminations</b>	<b>Total</b>
External revenue .....	\$ 74,015	\$ 63,205	\$ 29,062	\$ —	\$ 166,282	\$ —	\$ 166,282
Inter-segment revenue .....	—	4,457	—	—	4,457	(4,457)	—
<b>Total revenue .....</b>	<b>\$ 74,015</b>	<b>\$ 67,662</b>	<b>\$ 29,062</b>	<b>\$ —</b>	<b>\$ 170,739</b>	<b>\$ (4,457)</b>	<b>\$ 166,282</b>
<b>Net Income (loss) .....</b>	<b>\$ 8,749</b>	<b>\$ 15,230</b>	<b>\$ 2,692</b>	<b>\$ (3,669)</b>	<b>\$ 23,002</b>	<b>\$ (301)</b>	<b>\$ 22,701</b>
Finance cost, net .....	18	89	85	222	414	—	414
Income tax expense .....	2,394	2,388	1,177	36	5,995	—	5,995
Depreciation and amortization included in costs of sales .....	907	979	492	—	2,378	—	2,378
Depreciation and amortization included in operating expenses .....	1,479	282	66	69	1,896	—	1,896
<b>EBITDA .....</b>	<b>\$ 13,547</b>	<b>\$ 18,968</b>	<b>\$ 4,512</b>	<b>\$ (3,342)</b>	<b>\$ 33,685</b>	<b>\$ (301)</b>	<b>\$ 33,384</b>

**Reconciliation to Adjusted EBITDA:**

EBITDA .....	\$ 13,547	\$ 18,968	\$ 4,512	\$ (3,342)	\$ 33,685	\$ (301)	\$ 33,384
Other (income) expense .....	(113)	513	33	—	433	—	433
Foreign exchange loss (gain) .....	457	257	(263)	(40)	411	—	411
Equity income of associates .....	(1,269)	—	—	—	(1,269)	—	(1,269)
Share-based compensation <sup>(1)</sup> .....	156	172	59	(206)	181	—	181
Other recoveries <sup>(2)</sup> .....	—	—	—	(22)	(22)	—	(22)
<b>Adjusted EBITDA <sup>(3)</sup> .....</b>	<b>\$ 12,778</b>	<b>\$ 19,910</b>	<b>\$ 4,341</b>	<b>\$ (3,610)</b>	<b>\$ 33,419</b>	<b>\$ (301)</b>	<b>\$ 33,118</b>
Capital expenditures .....	\$ 1,192	\$ 5,100	\$ 490	\$ —	\$ 6,782	\$ —	\$ 6,782

**Notes:**

- (1) Represents share-based compensation expense in respect of the Plan ([Note 16](#)) and the LTIP.
- (2) Represents primarily legal, professional advisory fees and other transaction costs incurred with respect to non-operating capital structure related transactions. Neo has removed these recoveries to provide comparability with historic periods.
- (3) Certain items are excluded from net income (loss) to determine Adjusted EBITDA. Adjusted EBITDA is used internally by management when analyzing segment underlying performance.

**As at March 31, 2023:**

	<u>Magnequench</u>	<u>Chemicals &amp; Oxides</u>	<u>Rare Metals</u>	<u>Corporate</u>	<u>Total for reportable segments</u>	<u>Eliminations</u>	<u>Total</u>
Total assets .....	\$ 278,278	\$ 231,057	\$ 97,438	\$ 38,088	\$ 644,861	\$ (31)	\$ 644,830
Investment in equity method associates .....	15,994	—	—	—	15,994	—	15,994
Total liabilities .....	(35,658)	(53,635)	(48,649)	(40,191)	(178,133)	—	(178,133)

**As at December 31, 2022:**

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

The geographic distribution of Neo's revenue based on the location of its customers for the three months ended March 31, 2023 and 2022 are summarized as follows:

<u>Revenue</u>	<u>Three Months Ended March 31,</u>	
	<u>2023</u>	<u>2022</u>
Asia:		
China .....	\$ 33,867	\$ 55,877
Japan .....	29,100	27,076
Thailand .....	5,839	7,120
South Korea .....	2,696	1,921
North America .....	28,204	30,282
Europe .....	31,796	39,711
Other .....	4,028	4,295
<b>Total</b> .....	<b>\$ 135,530</b>	<b>\$ 166,282</b>

Revenue from one significant customer accounted for \$13.1 million and \$25.0 million of Neo's total revenue for the three months ended March 31, 2023 and March 31, 2022, respectively. Neo defines significant customers as those that generates 10% or more of consolidated revenue.

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**NOTE 11 SUPPLEMENTAL CASH FLOW INFORMATION**

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

	Three Months Ended March 31,	
	2023	2022
Decrease (increase) in assets:		
Accounts receivable .....	\$ 15,802	\$ (20,326)
Inventories .....	26,107	(16,524)
Other assets .....	(6,465)	(4,912)
Increase (decrease) in liabilities:		
Accounts payable and other accrued charges .....	(11,968)	(26,698)
Other liabilities .....	318	1,622
<b>Total net change .....</b>	<b>\$ 23,794</b>	<b>\$ (66,838)</b>

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**NOTE 12 COMMITMENTS AND CONTINGENCIES**

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**12.1 Commitments**

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

**12.2 Legal contingencies**

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

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

Of the various lawsuits initiated and underway, the German Courts have ruled that certain of Neo Chemicals & Oxides (Europe) Ltd.'s ("**Neo C&O (Europe)**") products infringed five expired patents of Rhodia Chimie ("**Rhodia**"): European patent #0735984 B1 ("**984**"), European patent #0863846 B1 ("**846**"), European patent #0605274 ("**274**"), European patent #0955267 B1 ("**267**"), and European patent #1435338 B1 ("**338**"). Neo C&O (Europe) filed an appeal in the 846 infringement action, which is still pending. Neo C&O (Europe) filed an appeal in the 338 infringement action but the Higher Regional Court of Karlsruhe affirmed the judgment of infringement. Neo C&O (Europe) subsequently filed for leave to appeal the 338 judgment of infringement to the German Federal Supreme Court and that application is still pending. The judgments of infringement with respect to 984, 274 and 267, are final. Neo C&O (Europe) was ordered to provide information related to the calculation of damages, but as of yet, there has been no determination of damages in any of the German infringement lawsuits.

Neo C&O (Europe) challenged the validity of patents 984, 846, 274, 267 and 338 before the German Federal Patent Court. Following litigation before the German Federal Patent Court, and subsequent appeals to the German Supreme Court, patents 984, 846, 274, 267 and 338 were upheld subject to restrictions in scope. Neo C&O (Europe) also filed actions in the German Federal Patent Court challenging the validity of European patent #1527018 ("**018**") and European patent #2007682 ("**682**"). The German Federal Patent Court upheld the validity of 018 in restricted form. Both Rhodia and Neo have appealed this ruling and the appeals are still pending. Neo's lawsuit challenging the validity of 682 is pending in the German Federal Patent Court.

Rhodia has filed actions in Germany alleging that Neo C&O (Europe) has infringed four unexpired patents: 018, 682, European Patent #3009403 B1 ("**403**") and European patent #2523907 ("**907**"). In September 2020, Neo C&O (Europe) was found to infringe 018 in Germany by the Düsseldorf Regional Court. Neo and Rhodia have both appealed this ruling, and the appeals are still pending. The Düsseldorf Regional Court stayed Rhodia's case alleging infringement of 682, pending the outcome of Neo's action before the German Federal Patent Court to invalidate 682. In September of 2021 the Court of Appeal remanded the case back to the Düsseldorf Regional Court to reconsider its order staying the 682 infringement proceeding. The Düsseldorf Regional Court has not yet ruled on Neo's motion for stay following the remand. The 403 infringement action is pending before the Düsseldorf Regional Court and a trial date has not yet been set. The 907 action was initiated at the beginning of July 2020, but Rhodia dismissed the 907 action in March 2021.

In April 2018, the United Kingdom ("**UK**") High Court of Justice determined that certain of Neo C&O (Europe)'s products infringed the equivalent UK patent 338. Neo C&O (Europe) appealed the trial court judgment of infringement but in October of 2019 the judgment of infringement was affirmed. In 2020 Neo C&O (Europe) reached a confidential settlement with the plaintiffs, Rhodia Operations S.A.S. and Anan Kasai Co. Ltd., for some of the damage claims. A trial on the plaintiffs' remaining claims for damages took place in January and February 2022. On March 29, 2022, the Court ruled that the plaintiffs were not entitled to any damages for the remaining claims. The plaintiffs' appeal of the trial court judgment was dismissed in January 2023. The plaintiffs have applied for permission to appeal to the Supreme Court and the application is still pending.

On April 18, 2018, the Patent Reexamination Board of the State Intellectual Property Office of China ("**PRB**") ruled in favor of ZAMR, a Chinese subsidiary of Neo, by invalidating all claims associated with Chinese patent ZL 03817110.4, held by Rhodia Operations S.A.S., an affiliate of Brussels-based Solvay ("**Rhodia Operations**"). On May 23, 2018, the Intermediate People's Court of Zibo, China, dismissed the pending lawsuit by Rhodia Operations alleging infringement of Chinese patent ZL 03817110.4. Rhodia Operations appealed the decisions of the PRB and the Intermediate People's Court of Zibo concerning Patent ZL 03817110.4. In December 2020, the Beijing IP Court upheld the ruling of the PRB invalidating all claims associated with patent ZL 03817110.4. Rhodia Operations appealed the decision of the Beijing IP Court. On April 1, 2022, the Supreme People's Court upheld the ruling of the Beijing IP Court and the judgment invalidating patent ZL 03817110.4 is now final.

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

1 through 3 of patent ZL 200710146613.6. In September 2022, the Supreme People's Court upheld the ruling of the PRB.

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

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

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

In November of 2020 Rhodia Operations filed a lawsuit in Estonia against NPM Silmet OÜ alleging infringement of 403. This case has not yet been set for trial. Neo C&O (Europe) has filed an action before the European Patent Office seeking to revoke 403.

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

<b>Patent Reference</b>	<b>Jurisdiction of Claim</b>	<b>Specified Damages by Claimant</b>
European patent 0863846 B1	Germany	} \$8.7 million
European patent 0735984 B1	Germany	
European patent 0605274 B1	Germany	
Chinese patent ZL 96196505.3	China	\$6.6 million
European Patent EP 3009403	Germany	Not specified
European Patent EP 3009403	Estonia	\$0.1 million
European & UK patents 1435338 B1	Germany	\$41.4 million (€38.0 million)
European & UK patents 1435338 B1	UK	Not specified
European patent 0955267	Germany	\$0.3 million (€0.3 million)
European patent 1527018	Germany	\$0.7 million
European patent 2007682	Germany	Not specified

Management has made an assessment, based on its interpretation of the claims as to the quantum of the appropriate provision for certain claims, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets. Such a provision is based on management's best estimate, as damages are uncertain and are subject to judicial determination. Management's assessment, based on its interpretation of the claims, the limited facts available at this time and independent legal advice, is that for all other claims it is not probable that an outflow of resources will be

required in settling these claims and no provision has been made. Future developments in these cases could cause management to change its assessment.

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

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

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**NOTE 13      SHARE CAPITAL**

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	<u>March 31, 2023</u>	<u>December 31, 2022</u>
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 .....	45,196,921	45,196,921
Total treasury shares .....	—	—

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

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**NOTE 14      EARNINGS PER SHARE**

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**14.1      Weighted-average number of common shares - basic**

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

	<u>Three Months Ended March 31,</u>	
	<u>2023</u>	<u>2022</u>
Common shares issued at beginning of period .....	45,196,921	40,668,902
Weighted average impact of:		
Issuance of common shares .....	—	12,289
<b>Weighted average number of common shares for the period - basic .....</b>	<b><u>45,196,921</u></b>	<b><u>40,681,191</u></b>

## 14.2 Weighted average number of common shares - diluted

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

	Three Months Ended March 31,	
	2023	2022
Weighted average number of common shares - basic .....	45,196,921	40,681,191
Dilutive effect of Stock Units .....	—	468,132
<b>Weighted average number of common shares - diluted .....</b>	<b>45,196,921</b>	<b>41,149,323</b>

## 14.3 Earnings per share

The calculation of basic and diluted earnings per share was based on net income attributable to equity holders of Neo for the three months ended March 31, 2023, and March 31, 2022.

	Three Months Ended March 31,	
	2023	2022
Net (loss) income attributable to equity holders of Neo Performance Materials Inc. - basic and diluted .....	\$ (10,454)	\$ 22,350

  

	Three Months Ended March 31,	
	2023	2022
(Loss) earnings per share - basic .....	\$ (0.23)	\$ 0.55
(Loss) earnings per share - diluted .....	\$ (0.23)	\$ 0.54

For the three months ended March 31, 2023, all stock options, equity-settled RSUs and equity-settled PSUs were excluded because their effect would have been anti-dilutive (three months ended March 31, 2022: 399,709 stock options, 38,820 equity-settled RSUs, 215,155 equity-settled PSUs).

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## NOTE 15 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.

For the three months ended March 31, 2023, Neo had an income tax expense of \$1.6 million on loss from operations before taxes of \$9.1 million. For the three months ended March 31, 2022, Neo had an income tax expense of \$6.0 million on income from operations before taxes of \$27.4 million.

Neo's effective income tax rates were (17.8)% for the three months ended March 31, 2023 and 21.9% for the three months ended March 31, 2022. The negative effective tax rate for the three months ended March 31, 2023 is due

primarily to the mix and volume of operating income in jurisdictions with different effective tax rates and jurisdictions for which no deferred tax assets are recognized.

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**NOTE 16      SHARE-BASED COMPENSATION**

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On May 28, 2021, an omnibus long-term incentive plan (the "**Plan**") was established. The Plan was formally approved at the Annual General and Special Meeting of Neo on June 29, 2021. Subsequent to the approval, awards were granted in September 2021 and March 28, 2022.

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

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Options .....	\$            200	\$            186
RSUs .....	240	120
PSUs .....	446	345
DSUs .....	(36)	(470)
<b>Total</b> .....	<b>\$            850</b>	<b>\$            181</b>

During the three months ended March 31, 2023, there were no awards granted or issued under the Plan. No previously issued awards settled during the three months ended March 31, 2023.

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**NOTE 17      RELATED PARTY TRANSACTIONS**

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

Neo's related party transactions were made on terms equivalent to those that prevail in arm's length transactions. Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

**17.1      Transactions with associates**

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

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

	Three Months Ended March 31,	
	2023	2022
Purchase of goods and services from associates:		
TMT .....	\$ 1,717	\$ 614
Keli .....	6,086	26,346
GQD .....	2,501	6,108
Sales of goods and services to associates:		
TMT .....	3,255	2,641
Keli .....	—	718

### 17.2 Transactions with joint venture partners

Neo also has occasionally purchased and sold products from and to Ganzhou Qian Dong Rare Earth Group Co. Ltd. ("Qian Dong") and Toda Kogyo Corp. ("Toda").

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

	Three Months Ended March 31,	
	2023	2022
Sale of goods to Toda .....	\$ 1,349	\$ 480
Purchase of goods from Qian Dong .....	2,792	1,640

### 17.3 Transactions with other related parties

Neo, through one of its subsidiaries in China, MQCZ, has occasionally sold products to Atatsu Co., Ltd. ("Atatsu") for resale to third party customers. Atatsu is controlled by members of MQCZ's key management personnel. For the three months ended March 31, 2023, sales to Atatsu were nominal. For the three months ended March 31, 2022, sales to Atatsu were \$0.3 million.

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

	Three Months Ended March 31,	
	2023	2022
Sale of goods and services to related parties .....	\$ 10,654	\$ 4,092
Purchase of goods and services from related parties .....	13,096	34,708
	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Trade balances:		
from related parties .....	\$ 4,224	\$ 2,374
due to related parties .....	(1,423)	(9,295)
<b>Total</b> .....	<b>\$ 2,801</b>	<b>\$ (6,921)</b>

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**NOTE 18      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 compensations and share-based compensation expenses.

Neo's short-term compensation for key management personnel during the three months ended March 31, 2023 and 2022, was as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Directors .....	167	99
Key Executive Management .....	1,096	1,303
<b>Total</b> .....	<b>\$ 1,263</b>	<b>\$ 1,402</b>

Neo's share-based compensation expense for key management personnel during the three months ended March 31, 2023 and 2022, was as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2023</b>	<b>2022</b>
Directors .....	(36)	(470)
Key Executive Management .....	691	452
<b>Total</b> .....	<b>\$ 655</b>	<b>\$ (18)</b>

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**NOTE 19      PROVISIONS**


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The provisions for the disposal of NORM and estimated potential damages for historical volumes related to ongoing patent litigation for the three months ended March 31, 2023 are summarized as below:

	<b>March 31, 2023</b>	<b>December 31, 2022</b>
Balance as at January 1, 2023 and 2022, respectively .....	24,973	20,687
Reclassified to accounts payable and other accrued charges .....	—	(2,391)
Provisions made, in the period .....	708	8,451
Payments made, in the period .....	(45)	(986)
Currency translation adjustment .....	98	(788)
<b>Balance, at the end of period</b> .....	<b>\$ 25,734</b>	<b>\$ 24,973</b>
<b>Current portion</b> .....	<b>\$ 1,347</b>	<b>\$ 1,369</b>
<b>Non-current portion</b> .....	<b>\$ 24,387</b>	<b>\$ 23,604</b>

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**NOTE 20 FINANCE COSTS**

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

	Three Months Ended March 31,	
	2023	2022
Change in fair value of equity securities <a href="#">(Note 8)</a> .....	\$ 357	\$ 256
Change in fair value of derivative liabilities <a href="#">(Note 8)</a> .....	3,420	29
Accretion expense on lease liabilities .....	42	42
Interest earned on bank deposits net of interest paid on bank advances .....	(569)	(60)
Interest expense on EDC credit facility .....	580	—
Interest expense on Estonia debt facility .....	73	1
Interest expense on China debt facility .....	38	130
Interest expense on German debt facility .....	71	16
<b>Total</b> .....	<b>\$ 4,012</b>	<b>\$ 414</b>

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**NOTE 21 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, 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.

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## NOTE 22      SUBSEQUENT EVENTS

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### 22.1      Dividends payable to equity holders of Neo

On May 10, 2023, the Board of Directors declared a quarterly dividend of Cdn \$0.10 per common share payable in cash on June 29, 2023, to common shareholders of record at the close of business on June 20, 2023.

### 22.2      Acquisition of SG Technologies Group Limited ("SGTec")

On April 18, 2023, Neo announced that it has agreed to acquire 90% of the outstanding share capital of SGTec, one of Europe's leading advanced, specialty manufacturers of rare-earth-based and other high-performance magnets for industrial and commercial markets. The acquisition was completed on April 19, 2023. The acquisition will be accounted for as a business combination in accordance with IFRS 3 "Business Combinations".

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

To complete the acquisition, Neo made an initial cash payment of 11.6 million Great British Pounds ("**GBP**") (\$14.4 million). In addition, Neo is also contingently required to make a future cash payment based on SGTec's financial performance during its fiscal years ending March 31, 2024, March 31, 2025 and March 31, 2026. The amount of the payment will be between nil and a maximum of 5.4 million GBP, and will be settled in 2026.

Due to the timing of when the transaction closed, there remains insufficient information available to management to be able to complete the initial accounting for the business combination, and as such, the provisional purchase price allocation has not been disclosed.

The remaining 10% of SGTec will continue to be owned by the members of SGTec's senior management team.

### 22.3      Hudson Resources Inc.

On August 22, 2022, Neo and Hudson Resources Inc. ("**Hudson**") entered into a binding agreement ("**Agreement**") whereby Neo would acquire from Hudson a mineral exploration license ("**License**") covering a portion of the Sarfartoq Carbonatite Complex in southwest Greenland (the "**Project**"). The Project hosts a mineral deposit that is enriched in neodymium and praseodymium, two essential elements for rare earth permanent magnets used in electric vehicles, wind turbines, and high-efficiency electric motors and pumps that help reduce greenhouse gas emissions. Neo subsequently assigned its rights under the Agreement to Neo North Star Resources Inc. ("**NNSR**"), a special-purpose entity ("**SPE**") established to fund the purchase of the License and the exploration of the Project. NNSR is majority-owned by Neo with significant investment from Weston Energy III LLC, a portfolio company of Yorktown Partners LLC. NNSR intends to raise additional capital as needed to conduct its planned exploration program.

On April 24, 2023, NNSR completed the purchase of the License from Hudson for the agreed-upon total compensation of \$3.5 million, of which \$0.25 million was previously paid by Neo in 2022 upon signing of the

Agreement, which will be reimbursed by NNSR. The License has been transferred to NNSR, on May 3, 2023, upon endorsement of a license addendum by the government of Greenland.

Pursuant to the Agreement, Hudson may, under certain circumstances, be entitled to additional compensation in the form of equity interests in NNSR or a share of future sale proceeds.