

Neo Performance Materials Reports Third Quarter 2023 Results

written by Raj Shah | November 10, 2023

Q3 2023 Highlights

(unless otherwise noted, all financial amounts in this news release are expressed in United States dollars)

- Q3 2023 revenue of \$136.9 million, lower by 6.6% YoY.
- Operating income of \$7.0 million in the quarter.
- Adjusted Net Income⁽¹⁾ of \$4.0 million in the quarter, or \$0.09 per share.
- Adjusted EBITDA⁽¹⁾ of \$13.2 million in the quarter, higher by 87.1% YoY.
- Cash balance of \$113.4 million, after funding acquisitions and investments of \$16.4 million, distributing \$10.1 million in dividends to its shareholders, and repurchasing \$16.7 million of shares under the Normal Course Issuer Bid (the “**NCIB**”).
- A quarterly dividend of Cdn\$0.10 per common share was declared on November 9, 2023 for shareholders of record at December 18, 2023, with a payment date of December 28, 2023.

November 10, 2023 ([Source](#)) – Neo Performance Materials Inc. (“**Neo**”) (TSX: [NEO](#)) released its third quarter 2023 financial results. The financial statements and management’s discussion and analysis (“**MD&A**”) of these results can be viewed on Neo’s web site at www.neomaterials.com/investors/ and on SEDAR at www.sedar.com.

“I am pleased with the direction of our third quarter results as the underlying impact of a more stable rare earth pricing environment validates what the normalized earning power of Neo looks like,” said Rahim Suleman, President and CEO of Neo. “During the quarter, we saw rare earth prices near bottom and show signs of a steady strengthening which we have seen continue in the current quarter. Combined with continued positive customer sentiment in Neo’s key end markets, this provides us with confidence in the stability and improving trends in markets and more stable pricing and improved volumes.”

“Our sintered magnet plant construction in Estonia is on track, and we look forward to emerging as the first major producer of rare earth permanent magnets for electrified vehicles and wind energy in Europe,” Mr. Suleman added. “Positioning Neo to be able to deliver permanent magnets where and when our customers want them is critical to Neo and our customers.”

⁽¹⁾Neo reports non-IFRS measures such as “Adjusted Net Income”, “Adjusted Earnings per Share”, “Adjusted EBITDA”, “Adjusted EBITDA Margin” and “EBITDA”. Please see information on this and other non-IFRS measures in the “Non-IFRS Measures” section of this news release and in the MD&A, available on Neo’s website at www.neomaterials.com and on SEDAR at www.sedar.com.

HIGHLIGHTS OF Q3 2023 CONSOLIDATED PERFORMANCE

For the three months ended September 30, 2023, consolidated revenue was \$136.9 million compared to \$146.6 million for the same period in the prior year; a decrease of \$9.7 million or 6.6%. Neo reported net income of \$3.1 million, or \$0.07 per share, compared to net loss of \$3.8 million, or \$0.09 per share, in the same period of 2022. Adjusted Net Income⁽¹⁾ totaled \$4.0 million, or \$0.09 per share, compared to Adjusted Net

Loss⁽¹⁾ of \$1.9 million, or \$0.04 per share, in the corresponding period of the prior year. Adjusted EBITDA⁽¹⁾ was \$13.2 million, an improvement of 87.1% compared to Adjusted EBITDA⁽¹⁾ of \$7.0 million in the third quarter of 2022.

As at September 30, 2023, Neo had cash and cash equivalents of \$113.4 million plus restricted cash of \$3.2 million, compared to \$147.5 million plus \$1.2 million as at December 31, 2022.

SELECTED FINANCIAL RESULTS

TABLE 1: Selected Consolidated Results				
	<i>Quarter-over-Quarter Comparison</i>		<i>Year-over-Year Comparison</i>	
<i>(\$000s)</i>	Q3 2023	Q3 2022	YTD Q3 2023	YTD Q3 2022
Revenue	136,917	146,627	442,877	481,130
Operating income	6,959	2,239	16,637	51,887
EBITDA ⁽¹⁾	11,053	5,460	24,493	66,068
Adjusted EBITDA ⁽¹⁾	13,160	7,034	34,122	66,607
Adjusted EBITDA % ⁽¹⁾	9.6 %	4.8 %	7.7 %	13.8 %

⁽¹⁾Neo reports non-IFRS measures such as “Adjusted Net Income”, “Adjusted Earnings per Share”, “Adjusted EBITDA”, “Adjusted EBITDA Margin” and “EBITDA”. Please see information on this and other non-IFRS measures in the “Non-IFRS Measures” section of this news release and in the MD&A.

MAGNEQUENCH SEGMENT RESULTS

TABLE 2: Selected Magnequench Results

	Quarter-over-Quarter Comparison		Year-over-Year Comparison	
	Q3 2023	Q3 2022	YTD Q3 2023	YTD Q3 2022
Volume (tonnes)	1,389	1,097	3,413	3,620
(\$000s)				
Revenue	54,414	67,402	158,908	219,828
Operating income	2,911	4,897	4,943	27,995
EBITDA ⁽¹⁾	4,477	6,345	9,116	35,814
Adjusted EBITDA ⁽¹⁾	6,042	7,282	15,199	35,384

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Magnequench revenue in the third quarter declined by about 19.3% compared to the prior year period, due to substantially lower pass-through prices for magnetic rare earth elements. Volumes improved compared to the prior year period, although the permanent magnet industry remains slow in the near-term. Adjusted EBITDA as a percentage of revenue expanded slightly in the quarter.

CHEMICALS & OXIDES (“C&O”) SEGMENT RESULTS

TABLE 3: Selected C&O Results				
	Quarter-over-Quarter Comparison		Year-over-Year Comparison	

(\$000s)	Q3 2023	Q3 2022	YTD Q3 2023	YTD Q3 2022
Revenue	57,812	52,231	180,377	189,244
Operating income (loss)	6,068	(5,298)	1,466	21,324
EBITDA ⁽¹⁾	6,958	(3,231)	4,053	26,490
Adjusted EBITDA ⁽¹⁾	7,737	(3,863)	6,088	25,710

⁽¹⁾Neo reports non-IFRS measures such as “Adjusted Net Income”, “Adjusted Earnings per Share”, “Adjusted EBITDA”, “Adjusted EBITDA Margin” and “EBITDA”. Please see information on this and other non-IFRS measures in the “Non-IFRS Measures” section of this news release and in the MD&A.

C&O revenue improved by 10.7% during the three months ended September 30, 2023, driven by a net improved product mix and improved volumes, despite a substantially lower rare earth price environment. C&O dynamics were mixed with rare earth pricing for neodymium and praseodymium elements continuing to face pricing headwinds offset by strong performance in high purity dysprosium. The dysprosium volumes were related to the higher-value, multi-layer ceramic capacitor (“MLCC”) market as opposed to the standard grade dysprosium which pertains to the magnetics market. C&O’s environmental emissions catalyst business also showed strong volumes as China recovered from a slower first quarter of 2023. Adjusted EBITDA during the quarter strongly benefited from improved pricing lead-lag dynamics in the rare earth separations business (using historical cost inventory with current sales prices).

RARE METALS SEGMENT RESULTS

TABLE 4: Selected Rare Metals Results

(\$000s)	Quarter-over-Quarter Comparison		Year-over-Year Comparison	
	Q3 2023	Q3 2022	YTD Q3 2023	YTD Q3 2022
Revenue	25,976	31,567	104,877	86,521
Operating income	2,749	5,199	25,267	13,186
EBITDA ⁽¹⁾	4,349	6,587	26,665	16,457
Adjusted EBITDA ⁽¹⁾	3,293	5,797	26,407	15,312

⁽¹⁾Neo reports non-IFRS measures such as “Adjusted Net Income”, “Adjusted Earnings per Share”, “Adjusted EBITDA”, “Adjusted EBITDA Margin” and “EBITDA”. Please see information on this and other non-IFRS measures in the “Non-IFRS Measures” section of this news release and in the MD&A.

Rare Metals reported 17.7% lower revenue during the third quarter, although continued to report very strong earnings through the first nine months of 2023. The segment delivered healthy margin performance driven by strength in Hafnium pricing and demand. The upward trend in Hafnium prices which began in the fourth quarter of 2021 has continued throughout the third quarter of 2023 with an increase of over 30% during the three months ended September 30, 2023. The recycling purchases and activities of Rare Metals were particularly impactful to maintaining and growing margins as prices for scrap material purchased in the quarter did not rise as fast as selling prices for finished goods.

CONFERENCE CALL ON FRIDAY NOVEMBER 10, 2023 AT 10 AM EASTERN

Management will host a teleconference call on Friday, November 10, 2023 at 10:00 a.m. (Eastern Time) to discuss the third quarter 2023 results. Interested parties may access the teleconference by calling (416) 764-8650 (local) or (888) 664-6383 (toll free long distance) or by

visiting <https://app.webinar.net/pm932Ea2GDY>. A recording of the teleconference may be accessed by calling (416) 764-8677 (local) or (888) 390-0541 (toll free long distance), and entering pass code 418328# until December 10, 2023.

NON-IFRS MEASURES

This news release refers to certain non-IFRS financial measures and ratios such as “Adjusted Net Income”, “EBITDA”, “Adjusted EBITDA”, and “Adjusted EBITDA Margin”. These measures and ratios are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS, and may not be comparable to similar measures presented by other companies. Rather, these measures and ratios are provided as additional information to complement IFRS financial measures by providing further understanding of Neo’s results of operations from management’s perspective. Neo’s definitions of non-IFRS measures used in this news release may not be the same as the definitions for such measures used by other companies in their reporting. Non-IFRS measures and ratios have limitations as analytical tools and should not be considered in isolation nor as a substitute for analysis of Neo’s financial information reported under IFRS. Neo uses non-IFRS financial measures and ratios to provide investors with supplemental measures of its base-line operating performance and to eliminate items that have less bearing on operating performance or operating conditions and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. Neo believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures and ratios in the evaluation of issuers. Neo’s management also uses non-IFRS financial measures to facilitate operating performance comparisons from period to period. For definitions of how Neo defines such financial measures and ratios, please see the “Non-IFRS Financial Measures” section of

Neo's management's discussion and analysis filing for the three and nine months ended September 30, 2023, available on Neo's web site at www.neomaterials.com and on SEDAR at www.sedar.com.

TABLE 5: CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(\$000s)	September 30, 2023	December 31, 2022
ASSETS		
Current		
Cash and cash equivalents	\$ 113,419	\$ 147,491
Restricted cash	3,207	1,179
Accounts receivable	71,017	81,409
Inventories	197,173	212,702
Income taxes receivable	1,080	355
Assets held for sale	66	–
Other current assets	21,106	23,279
Total current assets	407,068	466,415
Property, plant and equipment	96,032	75,767
Intangible assets	38,571	42,984
Goodwill	64,023	66,042
Investments	16,942	16,363
Deferred tax assets	7,707	6,956
Other non-current assets	1,184	1,933
Total non-current assets	224,459	210,045

Total assets	\$ 631,527	\$ 676,460
LIABILITIES AND EQUITY		
Current		
Bank advances and other short-term debt	\$ —	\$ 17,288
Accounts payable and other accrued charges	70,303	69,093
Income taxes payable	9,846	10,033
Provisions	1,200	1,369
Lease obligations	1,500	1,264
Derivative liability	36,492	28,570
Current portion of long-term debt	2,406	747
Other current liabilities	671	278
Total current liabilities	122,418	128,642
Long term debt	22,844	29,885
Employee benefits	454	489
Derivative liability	1,858	—
Provisions	24,967	23,604
Deferred tax liabilities	16,108	13,942
Lease obligations	3,259	813
Other non-current liabilities	3,325	1,442

Total non-current liabilities	72,815	70,175
Total liabilities	195,233	198,817
Non-controlling interest	2,906	3,193
Equity attributable to equity holders of Neo Performance Materials Inc.	433,388	474,450
Total equity	436,294	477,643
Total liabilities and equity	\$ 631,527	\$ 676,460

See accompanying notes to this table in Neo's Consolidated Financial Statements for the Three and Nine Months Ended September 30, 2023, available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com.

TABLE 6: CONSOLIDATED RESULTS OF OPERATIONS

Comparison of the three and nine months ended September 30, 2023 to the three and nine months ended September 30, 2022:

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue	\$ 136,917	\$ 146,627	\$ 442,877	\$ 481,130
Cost of sales				
Cost excluding depreciation and amortization	106,255	120,137	355,465	356,249
Depreciation and amortization	2,674	2,279	7,210	7,045

Gross profit	27,988	24,211	80,202	117,836
Expenses				
Selling, general and administrative	13,688	13,781	44,670	42,296
Share-based compensation	1,024	735	1,792	1,873
Depreciation and amortization	1,794	1,781	5,374	5,529
Research and development	4,523	5,675	11,729	15,956
Impairment of assets	–	–	–	295
	21,029	21,972	63,565	65,949
Operating income	6,959	2,239	16,637	51,887
Other income (expense)	1,011	(448)	362	(1,736)
Finance income (cost), net	648	(1,437)	(7,449)	(4,143)
Foreign exchange loss	(190)	(723)	(1,432)	(175)
Income (loss) from operations before income taxes and equity (loss) income of associates	8,428	(369)	8,118	45,833
Income tax expense	(4,124)	(3,775)	(11,722)	(15,771)

Income (loss) from operations before equity (loss) income of associates	4,304	(4,144)	(3,604)	30,062
Equity (loss) income of associates (net of income tax)	(1,195)	332	(3,658)	3,518
Net income (loss)	\$ 3,109	\$ (3,812)	\$ (7,262)	\$ 33,580
Attributable to:				
Equity holders of Neo Performance Materials Inc.	\$ 3,069	\$ (3,719)	\$ (7,075)	\$ 33,238
Non-controlling interest	40	(93)	(187)	342
	\$ 3,109	\$ (3,812)	\$ (7,262)	\$ 33,580
Earnings (loss) per share attributable to equity holders of Neo Performance Materials Inc.:				
Basic	\$ 0.07	\$ (0.09)	\$ (0.16)	\$ 0.81
Diluted	\$ 0.07	\$ (0.09)	\$ (0.16)	\$ 0.80
See Management's Discussion and Analysis for the Three and Nine Months Ended September 30, 2023, available on Neo's website at www.neomaterials.com and on SEDAR at www.sedar.com .				

TABLE 7: RECONCILIATIONS OF NET INCOME (LOSS) TO EBITDA, ADJUSTED EBITDA AND FREE CASH FLOW

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income (loss)	\$ 3,109	\$ (3,812)	\$ (7,262)	\$ 33,580
Add back (deduct):				
Finance (income) cost, net	(648)	1,437	7,449	4,143
Income tax expense	4,124	3,775	11,722	15,771
Depreciation and amortization included in cost of sales	2,674	2,279	7,210	7,045
Depreciation and amortization included in operating expenses	1,794	1,781	5,374	5,529
EBITDA	11,053	5,460	24,493	66,068
Adjustments to EBITDA:				
Other (income) expense ⁽¹⁾	(1,011)	448	(362)	1,736
Foreign exchange loss ⁽²⁾	190	723	1,432	175
Equity loss (income) of associates	1,195	(332)	3,658	(3,518)

Share-based compensation ⁽³⁾	1,024	735	1,792	1,873
Fair value adjustments to inventory acquired ⁽⁴⁾	423	–	995	–
Impairment of assets	–	–	–	295
Transaction and project startup costs (recoveries) ⁽⁵⁾	286	–	2,114	(22)
Adjusted EBITDA ⁽⁶⁾	\$ 13,160	\$ 7,034	\$ 34,122	\$ 66,607
<i>Adjusted EBITDA Margins ⁽⁶⁾</i>	<i>9.6 %</i>	<i>4.8 %</i>	<i>7.7 %</i>	<i>13.8 %</i>
Less:				
Capital expenditures ⁽⁷⁾	\$ 7,793	\$ 1,734	\$ 19,629	\$ 11,098
Free Cash Flow ⁽⁶⁾	\$ 5,367	\$ 5,300	\$ 14,493	\$ 55,509
<i>Free Cash Flow Conversion ⁽⁶⁾</i>	<i>40.8 %</i>	<i>75.3 %</i>	<i>42.5 %</i>	<i>83.3 %</i>

Notes:

(1)	Represents other (income) expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.
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(2)	Represents unrealized and realized foreign exchange losses that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
(3)	Represents share-based compensation expense in respect of the Plan and the LTIP.
(4)	In accordance with IFRS 3 <i>Business Combinations</i> , and on completion of the acquisition of SGTec, Neo recorded SGTec's acquired inventory at fair value, which included a mark-up for profit of \$1.3 million. A portion of this inventory was sold in the three months ended September 30, 2023, and the period since the acquisition, and had a \$0.4 million and \$1.0 million, respectively, impact on Net income (loss) in the three and nine months ended September 30, 2023.
(5)	These represent primarily legal, professional advisory fees and other transaction costs for capital structuring associated with Neo or investments of Neo. Neo has removed these charges to provide comparability with historic periods. For the three and nine months ended September 30, 2023, Neo incurred \$0.3 million and \$0.9 million, respectively, of project costs related to the establishment of the Sintered Magnet manufacturing capability in Europe. Additionally, Neo also incurred total acquisition-related costs of \$nil and \$1.2 million, respectively, in the acquisition of SGTec for the three and nine months ended September 30, 2023. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.

(6)	Neo reports non-IFRS measures such as “Adjusted Net Income”, “Adjusted Earnings per Share”, “Adjusted EBITDA”, “Adjusted EBITDA Margin”, “Free Cash Flow” and “Free Cash Flow Conversion”. Please see information on this and other non-IFRS measures in the “Non-IFRS Measures” section of this new release and in the MD&A, available on Neo’s website www.neomaterials.com and on SEDAR at www.sedar.com .
(7)	Includes capital expenditures of \$7.8 million for the three months ended September 30, 2023 and capital expenditures of \$17.4 million and right-of-use assets of \$2.2 million for the nine months ended September 30, 2023. Excludes the additions of Property, Plant and Equipment of \$12.0 million from the acquisition of SGTec.

TABLE 8: RECONCILIATIONS OF NET INCOME (LOSS) TO ADJUSTED NET INCOME (LOSS)

(\$000s)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income (loss)	\$ 3,109	\$ (3,812)	\$ (7,262)	\$ 33,580
Adjustments to net income (loss):				
Foreign exchange loss ⁽¹⁾	190	723	1,432	175
Impairment of assets	—	—	—	295
Share-based compensation ⁽²⁾	1,024	735	1,792	1,873

Transaction and project startup costs (recoveries) ⁽³⁾	286	–	2,114	(22)
Other items included in other expense ⁽⁴⁾	(897)	520	(278)	2,014
Fair value adjustments to inventory acquired ⁽⁵⁾	423	–	995	–
Tax impact of the above items	(122)	(76)	(669)	(473)
Adjusted net income (loss)	\$ 4,013	\$ (1,910)	\$ (1,876)	\$ 37,442
Attributable to:				
Equity holders of Neo	\$ 3,973	\$ (1,817)	\$ (1,689)	\$ 37,100
Non-controlling interest	\$ 40	\$ (93)	\$ (187)	\$ 342
Weighted average number of common shares outstanding:				
Basic	44,517,503	41,368,970	44,967,960	40,913,207
Diluted	45,019,400	41,368,970	44,967,960	41,353,231
Adjusted earnings (loss) per share ⁽⁶⁾ attributable to equity holders of Neo:				
Basic	\$ 0.09	\$ (0.04)	\$ (0.04)	\$ 0.91
Diluted	\$ 0.09	\$ (0.04)	\$ (0.04)	\$ 0.90

Notes:

(1)	Represents unrealized and realized foreign exchange losses that include non-cash adjustments in translating foreign denominated monetary assets and liabilities.
(2)	Represents share-based compensation expense in respect of the Plan and the LTIP.
(3)	These represent primarily legal, professional advisory fees and other transaction costs for capital structuring associated with Neo or investments of Neo. Neo has removed these charges to provide comparability with historic periods. For the three and nine months ended September 30, 2023, Neo incurred \$0.3 million and \$0.9 million, respectively, of project costs related to the establishment of the Sintered Magnet manufacturing capability in Europe. Additionally, Neo also incurred total acquisition-related costs of \$nil and \$1.2 million, respectively, in the acquisition of SGTec for the three and nine months ended September 30, 2023. These costs have been included in selling, general and administrative expense in the condensed consolidated statements of profit or loss.
(4)	Represents other expenses resulting from non-operational related activities, including provisions for damages for outstanding legal claims related to historic volumes. These costs and recoveries are not indicative of Neo's ongoing activities.
(5)	In accordance with IFRS 3 <i>Business Combinations</i> , and on completion of the acquisition of SGTec, Neo recorded SGTec's acquired inventory at fair value, which included a mark-up for profit of \$1.3 million. A portion of this inventory was sold in the three months ended September 30, 2023, and the period since the acquisition, and had a \$0.4 million and \$1.0 million, respectively, impact on Net income (loss) in the three and nine months ended September 30, 2023.

(6)

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About Neo Performance Materials

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. The business of Neo is organized along three segments: Magnequench, Chemicals & Oxides and Rare Metals. Neo is headquartered in Toronto, Ontario, Canada; with corporate offices in Greenwood Village, Colorado, United States; Singapore; and Beijing, China. Neo has a global platform that includes 10 manufacturing facilities located in China, the United States, Germany, Canada, Estonia, Thailand and the United Kingdom, as well as one dedicated research and development centre in Singapore. For more information, please visit www.neomaterials.com.

Cautionary Statements Regarding Forward Looking Statements

This news release contains “forward-looking information” within the meaning of applicable securities laws in Canada. Forward-looking information may relate to future events or the future performance of Neo. All statements in this release, other than statements of historical facts, with respect to Neo’s objectives and goals, as well as statements with respect to its beliefs, plans, objectives, expectations, anticipations, estimates, and

intentions, are forward-looking information. Specific forward-looking statements in this discussion include, but are not limited to, the following: expectations regarding certain of Neo's future results and information, including, among other things, revenue, expenses, sales growth, capital expenditures, and operations; statements with respect to current and future market trends that may directly or indirectly impact sales and revenue of Neo; expected use of cash balances; continuation of prudent management of working capital; source of funds for ongoing business requirements and capital investments; expectations regarding sufficiency of the allowance for uncollectible accounts and inventory provisions; analysis regarding sensitivity of the business to changes in exchange rates; impact of recently adopted accounting pronouncements; risk factors relating to intellectual property protection and intellectual property litigation; risk factors relating to national or international economies (including the impact of COVID-19), geopolitical risk and other risks present in the jurisdictions in which Neo, its customers, its suppliers, and/or its logistics partners operate, and; expectations concerning any remediation efforts to Neo's design of its internal controls over financial reporting and disclosure controls and procedures. Often, but not always, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "scheduled", "estimates", "continues", "forecasts", "projects", "predicts", "intends", "anticipates" or "believes", or variations of, or the negatives of, such words and phrases, or state that certain actions, events or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved. This information involves known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Neo believes the expectations reflected in such forward-looking information

are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking information included in this discussion and analysis should not be unduly relied upon. For more information on Neo, investors should review Neo's continuous disclosure filings that are available under Neo's profile at www.sedar.com.

SOURCE Neo Performance Materials, Inc.

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